ECONOMIC THEORIES AND REALITY

S. DALIN, A. ANIKIN, Y. OLSEVICH

S. DALIN
A. ANIKIN
Y. OLSEVICH

ECONOMIC THEORIES AND REALITY

PROGRESS
PUBLISHERS
MOSCOW
1967

TRANSLATED FROM THE RUSSIAN
BY DAVID A. MYSHNE

First Printing 1967

С. А. Далин, А. В. Аникин, Ю. И. Ольсевич
ЭКОНОМИЧЕСКИЕ ТЕОРИИ И ДЕЙСТВИТЕЛЬНОСТЬ
На английском языке

Printed in the Union of Soviet Socialist Republics

CONTENTS

FOREWORD

This book was written by three Soviet economists working at the U.S.S.R. Academy of Sciences. In their critical analysis of the different views of Western economists the three authors take the same theoretical stand, namely, the stand of scientific socialism, Marxism, which has demonstrated that modern capitalism is a system that has entered the period of its decline, that capitalism must inevitably be replaced by socialist society. The correctness of any theory is proved by practice. The correctness of Marxism has been demonstrated by history, particularly the fifty years of the Soviet Union's powerful development as well as the achievements of the socialist countries which came into being after the Second World War. The existence and rapid growth of the socialist countries have shown that socialism must inevitably supersede capitalism, although this may take a number of decades.

Such is the ideological creed of the authors.

Marxist science maintains that the economic ideas and conceptions defend and express with especial clarity the views and interests of classes and large social groups within a class. An analysis of the works of the most prominent representatives of different schools or trends of economic science is therefore important not only for characterising the particular school or trend, but also for ascertaining the interests and positions of the class and social group represented by the given author. The

present volume examines critically the views of three well-known Western economists—John Galbraith, Adolf Berle and Colin Clark—who take the stand of the capitalist class, defend its interests and are its ideologists.

In the 1930s the first two of these authors supported Franklin Roosevelt's "New Deal", and since the end of the war have been propounding state regulation of the economy. In the U.S.A. such economists have earned the reputation of "liberals". In this sense the British economist Colin Clark also holds liberal views.

It should be noted that the concept of American liberals differs from that of neo-liberals generally accepted in West European economic literature.

Whereas American liberals advocated, especially in the 1930s, a number of reforms, political included, most of them favouring state regulation of the economy, the West European neo-liberals of different trends defend the "free enterprise" theory.

A contradiction between the theoretical propositions and practical suggestions of the neo-liberals in economic policy has already been noted in the economic literature of different countries. In theory, neo-liberals, especially those of West Germany (Eucken, Röpke, Ehrhard) and Britain (Lionel Robins) advocate free competition, oppose extensive state intervention in economic life and make every attempt to substantiate the possibility of restoring economic balance and preventing recessions and crises by a free play of the market forces. At the same time, in elaborating practical suggestions for the country's economic policy, the West German neo-liberals, as also the champions of "free enterprise" in other countries (the Chicago school, the London school, the neo-liberals in Italy) advocate state intervention in economic life within certain limits.

It should be noted that in the 1960s the advocates of the "free enterprise" theory and neo-liberalism have increasingly inclined to extending state intervention in

economic life, particularly to accelerate the rate of economic growth.

This contradiction between the support of free competition and denial of state intervention in economic life in theory and, the defence of this intervention in practice, is tied up with the interests of big business. The latter agrees to state intervention as long as it is to its advantage, consolidates its domination in the economy and helps to increase its profits and opposes this intervention as soon as the situation permits.

The praise of free competition by the representatives of this trend is most commonly associated with the striving of big business to retain its influence on small independent manufacturers, handicraftsmen, small traders, small and middle farmers. These groups of the population are oppressed by monopolies and are dreaming of going back to the capitalism of the 19th century when free competition prevailed and the capital was not concentrated in the hands of a few large corporations.

Here we are emphasising the difference between the American liberals not only with regard to economic theory. It is also important to note that, despite the difference in the economic views of the neo-liberals and the advocates of the "free enterprise" theory in different countries, most of them take a conservative and extremely Right stand.

The advocates of "free enterprise" from the Chicago school, as a rule, support the country's most conservative and most reactionary political groups. Many of them openly supported Goldwater in the 1964 presidential elections. The West German neo-liberals adhere to positions of extreme anti-communism and support the West German revenge-seekers. The British neo-liberals support the Conservatives.

It is therefore necessary to distinguish the American liberals from this type of extreme reactionaries. Galbraith can by no means be listed among the ideologists of

Pentagon and the war industry monopolies. He advocates a policy of peaceful coexistence and competition of the two socio-economic systems—capitalist and socialist. Emphasising the extreme danger of a thermonuclear war for all of mankind, he is in favour of settling the question of superiority of either of the two socio-economic systems not by military, but by economic means. Colin Clark, whose views are very close to those held by the Right-wing Labourites, takes the same stand. Galbraith advocates an increase in the social expenditures of the state, i.e., on schools, hospitals, public works and unemployment relief. He is a typical representative of the school of Western economists who realise that, in order to survive, capitalism must introduce certain reforms and make some concessions to the broad masses of the people.

The difference between the economists of the Galbraith and Colin Clark type and the anti-Communists of the pro-fascist and pro-Goldwater type, must not be overlooked. This circumstance is rightfully noted by the authors of this book.

While bearing this difference in mind, the authors at the same time justly and rightly criticise Galbraith's, Berle's and Colin Clark's views. S. Dalin criticises Galbraith for his capitulation to the monopolies. A. Anikin criticises the standpoint of Berle who extols monopolistic corporations. Colin Clark is criticised by Y. Olsevich for his defence of the interests of large corporations.

All the three authors, whose views are analysed, are at one in their defence of the theory of "transformation" of capitalism. Proceeding from different theoretical premises, John Galbraith, Adolf Berle and Colin Clark adhere to the view that, compared with the old capitalism of free competition, modern capitalism has been fundamentally transformed. In their opinion the differences between modern and old capitalism are so profound that Berle goes, for example, as far as asserting that the

corporation is a special institution in which the higher administration is working not in its own selfish interests or the interests of its class but in the interests of society, of the people.

Berle endeavours to substantiate these assertions by treating managers as a group which controls the activities of the corporation, as opposed to the shareholders. The idea that modern capitalism has lost its negative features is defended not only by the advocates of the "managerial revolution". The theory of "transformation of capitalism" is also upheld by the champions of the "big business" theory and by many advocates of state regulation. In their opinion, capitalism must rest on free competition. The growth of the power of corporations and state regulation of economy allegedly do away with the main features and laws of capitalism.

We may agree that capitalism has, in a certain sense, really been "transformed", that the changes which occurred in it during the first two-thirds of the 20th century are really enormous. However, this transformation has been accompanied not by an elimination of the main features of capitalism and the laws governing it, but by their retention and development in new forms.

Both, the old free competition and the new monopoly capitalism, are based on private capitalist property and appropriation of the workers' surplus labour by capitalists. The essence and fundamental features of capitalism have been retained and only some of its properties have changed, namely, free competition has given place to monopoly and monopoly prices have superseded those freely forming in the market under the influence of supply and demand. Owing to monopoly prices, state subsidies and military procurement, the largest corporations make enormous superprofits. The power of the banks and industrial corporations and their opportunities of appropriating more and more of the national income have tremendously increased.

In the 19th century the state played the role of a constable and let the elemental forces of the market and the crises eliminate the disproportions and restore the balance of the capitalist economy developing through booms and slumps. Today the state acts in league with the banking and industrial magnates. To carry out its economic policy, the state studies the prospects for development of the economy, works out short- and long-term plans and strives to prevail on big business to fulfil them. Despite the political independence gained by the former colonies and semi-colonies, the economic exploitation of the liberated countries by export of capital, the building of industrial enterprises, purchase of their raw materials at low prices and sales of manufactured goods at high prices has not only persisted, but has even considerably increased. To defend the interests of the monopolies, capitalist states do not stop even at using military force.

Although the authors criticised in this book oppose a number of Keynesian dogmas, they in some measure advocate state regulation and state intervention in the economy. The defence of state regulation has become a sign of the times. Moreover, under present-day conditions, in addition to justifying the very existence of the bourgeois system ideologically, economics has yet another task, that of elaborating advice and suggestions concerning the economic policy the state should pursue, the practical measures it should carry out to prevent economic crises of overproduction, the measures it should adopt to prevent unemployment from increasing to the extent where it may jeopardise the existence of capitalism. Of late the practical task or function of economists has unusually expanded with the result that many economists are now working in the government machinery or as advisers in large corporations.

But there is a sphere in which the ideological and practical aspects of the bourgeois economic theories

interweave and interact. It is the sphere of the theory and practice of state regulation. Problems of state regulation, of economic policy now agitate the minds of all economists—Keynesians and anti-Keynesians, advocates of *laissez-faire* and their opponents. In the works of the economists analysed in this book problems of state regulation play an important part, although their views are not identical.

Galbraith, like most of those who are referred to as American liberals, is close to Keynesianism. However, this does not indicate unconditional support to Keynes' theory. He is, in particular, opposed to the policy of "controlled" inflation which is the most important part of Keynes' theory. Nor is he all alone in this case. Monetary inflation is also opposed by many other economists who reflect the moods of most diverse social groups which have a fixed income (including the owners of government and corporation bonds). He differs from the neo-Keynesians—advocates of the theory of growth—by his understanding of the qualitative aspect of competition of the two socio-economic systems, the understanding that the outcome of the competition between the socialist and capitalist systems will in the end be decided not only by the level of the productive forces which the given system is capable of ensuring, but also by the quality of the very social system, i.e., which of the systems provides real freedoms and can satisfy the vital interests of the popular masses.

In the socialist countries the increase in production and the technological progress lead to a rise in the living standards of all the people because the people themselves and not capitalist monopolies own the instruments of labour and the means of production. This is attested by the systematic rise in the well-being and culture of the people in socialist countries that accompanies the increase in the productive forces. It is also

illustrated by the new 1966-70 Five-Year Plan for Economic Development of the U.S.S.R.

Galbraith understands the importance of the qualitative aspect of competition between the two systems and therefore does not advocate artificial acceleration of the rate of economic growth by the state (propounded by neo-Keynesians from fear that the U.S.A. will sooner or later be defeated by the U.S.S.R. in economic competition), but advises an increase in the state expenditure on science, education and public health. He, as well as some other economists, holds that the important thing is not so much to accelerate the rate of growth, as to solve the social problems. His suggestion to increase the social expenditures of the state differs advantageously from the suggestions of the overwhelming majority of Keynesians and neo-Keynesians for whom the most important thing is to control the crises and accelerate the rate of growth at all costs.

This is a positive aspect of his stand. Of course, Galbraith considers the reforms he suggests as a means of consolidating capitalism. We differ with Galbraith in understanding the importance and role of reforms in capitalist society. Historical experience shows that the ruling monopolistic groups in the West concede to reforms only under pressure of the popular masses. Reforms are a by-product of the class struggle.

The part of the book dealing with Galbraith's views comes first precisely because his work raise the most urgent problems of modern capitalism.

The ideas of state regulation upheld by C. Clark are closer to those of Galbraith than to those of Keynes. Like Galbraith, he is against inflation and a deficit budget. Contrary to Keynesian recipes, which boil down to controlling crises and mass unemployment by means of a credit-monetary and budget policies, C. Clark suggests nationalisation in the branches of the economy where monopolisation has gone to "extremes". Galbraith does

not propose nationalisation of various branches of the economy as a means of resolving the contradictions of bourgeois society. As for C. Clark, while suggesting nationalisation of certain branches of the economy, he does not thereby intend to attack the principles of bourgeois society. Resting upon the experience of nationalisation of some branches of the economy in Britain after World War II he regards this from of state intervention in the economy as an instrument of saving capitalism. Colin Clark feels that the rate growth of the national income will in the future inevitably slow down and, like Galbraith, he sees no misfortune in it for capitalism.

The works of Galbraith, Berle and Clark are widely used for propagandising the theory of the "welfare state", according to which present-day capitalist society either as a result of the activity of the state which is presumably equally concerned with the poor and the rich, or because of the particularly rapid development of science, technology and the productivity of social labour ensures prosperity and affluence for all its citizens. The advocates of the theory of "universal welfare" maintain that in present-day bourgeois society the antagonism between wage workers and capitalists is presumably disappearing. The propaganda of the theory of "universal welfare" has assumed an especially large scope during the second half of the 1950s, the United States of America being declared the country which most completely embodies the features of "a welfare state".

Experience has shown the one-sidedness of this theory. Several books published in the sixties have, on the basis of statistics and incontestable facts, shown that in the U.S.A., the vounted country of "affluence" and "universal welfare", millions of people live in poverty.

Suffice it to mention in this connection the works of the American economists Michael Harrington, Herman

P. Miller, Robert Teobald and a number of others,* in which the authors who, on the whole, take a bourgeois stand are forced to show that the "welfare society" or the "affluent society", as it was called by Galbraith, conceals extremes of poverty and riches.

The existence of millions of poor in the richest capitalist country—the U.S.A.—was acknowledged by President Johnson in a number of his speeches. Millions of unemployed, i.e., a vast army of people living on the dole, such is the reverse side of the "welfare" and "affluent" society. Even the industrial boom which has now lasted several years has failed essentially to reduce this army of "superfluous people".

The economic slump, which the war in Vietnam partly disguises and partly holds back, as admitted by various American and West European economists, will lead to a new rise in unemployment.

Thus there can be seen to obtain a direct link between the theories of the economists and the existing situation in present-day capitalist countries, an analysis of which this book seeks to provide.

I. Dvorkin

---

* a) Michael Harrington, *The Other America, Poverty in the United States,* New York, 1962.

b) Herman P. Miller, *Rich Man, Poor Man. The Distribution of Income in America*, N.Y., 1964; Robert Teobald, *Free Men and Free Markets*, N.Y., 1965.

"Where there is obviously a discrepancy between the reality and the doctrine, one has to change the doctrine."

(John K. Galbraith, from an interview, published in the *Observer,* November 27, 1966.)

PART I

JOHN K. GALBRAITH'S THEORY OF STATE INTERVENTION

By S. Dalin

John Kenneth Galbraith* is one of the best-known present-day American economists dealing with theoretical problems of modern capitalism. His theory has become quite popular in the capitalist countries of Europe and has influenced the theoretical conceptions of Right-wing socialists.

Galbraith's theory is rooted in the situation of the great 1929-33 economic crisis which particularly affected the U.S.A. It is not without

---

* John Kenneth Galbraith was born in Canada. Before World War II he taught at California, Harvard and Princeton universities. In the beginning of World War II he worked in the National Defence Advisory System, at the end of 1941 he was appointed Deputy Administrator of the American Office of Price Administration and from 1943 was in charge of the economic work of the U.S. Strategic Bombing Survey. After the end of World War II (in 1946) he was Head of the Office of Economic Security Policy. Simultaneously, from 1943 to 1948, he was Editor of *Fortune* magazine. From 1949—Professor of Economics at Harvard University. Of late—Counsellor of the Democratic Party on Economic Problems. During the Kennedy administration was United States Ambassador to India. At present—Professor at Harvard University.

reason that Galbraith himself attaches special importance to his book *The Great Crash* devoted to the outbreak of the 1929 crisis.

"The tragic 1930s" showed that "something was rotten in the state of Denmark". The number of unemployed in the U.S.A. reached 17 million, unemployment affecting not only industrial, but also considerable sections of white-collar workers. The sharp drop in prices on agricultural products resulted in ruination of the farmers. Numerous small and middle urban capitalists went bankrupt. In the end the wave of bankruptcies overwhelmed the entire banking system. The discontent of the popular masses grew with each passing day. The ideological disorder in the camp of the bourgeoisie increased. Since the latter is not homogeneous in its composition and each of its groups has, in addition to the common class interests, also its own special interests, this engendered the appearance of various programmes for saving capitalism. The liberal bourgeoisie and the bourgeois intellectuals of the U.S.A. joined in Franklin D. Roosevelt's "New Deal". Among them was also John Kenneth Galbraith.

The 1930s, marked in the U.S.A. by two economic crises and an unusually severe and protracted depression, passed. Came World War II. The war industry developed, unemployment decreased and the profits of the monopolies increased. The American bourgeoisie, grown rich on the war, began to claim world supremacy.

But after World War II the general situation sharply changed. After the defeat of fascism popular revolutions won in a number of European and Asian countries with the result that

these countries adopted socialist system. The post-war years also saw the collapse of the colonial system of imperialism. Several countries liberated from colonial oppression took the road of non-capitalist development. In the capitalist countries there was an upsurge of the working-class movement. All these processes indicated a deepening of the crisis of the capitalist system.

In this new historical situation American imperialism took the lead in the struggle of world reaction against socialism. It declared cold war on the world socialist system.

Such theorists of American imperialism as professors Thomas C. Cochran and James Schlesinger came forward as heralds of the cold war and militarisation of the economy. They praised modern capitalism as a "system of free enterprise", although everybody knows that this system is dominated by monopolies, and therefore enjoys no economic freedom.

Professor John Galbraith is also an advocate of capitalism, but unlike the reactionary apologists of American imperialism he has long since understood that the capitalism or communism issue can no longer be settled by war. He advocates peaceful competition between the two systems. Galbraith feels that in this competition capitalism will be able to hold its own only if it rids itself of a number of negative characteristics. Hence, the programme of strengthening and "sanating" capitalism by reforms which must supposedly rid capitalism of its vices and shortcomings. To substantiate the necessity for these reforms, Galbraith has advanced his theory of modern capitalism, proposing to elimi-

2*

nate its vices by state intervention in economic life and thereby to strengthen the positions of capitalism in its competition with the world socialist system.

All of Galbraith's books actually deal with the same problems. In these books he elaborates various aspects of his theory of "countervailing power" set forth in his book *American Capitalism. The Concept of Countervailing Power* where he examines the most urgent problems of modern capitalism, namely, the problem of concentration and centralisation of capital, monopoly domination, the character of competition under monopoly capitalism and its effect on the movement of prices, and the problem of crises and unemployment. But the most important part in his theory is played by the problem of the further fate of capitalism itself.

In characterising modern capitalism Galbraith rests on the works of A. Berle and G. Means on modern corporations and the "corporate revolution", Joan Robinson on "imperfect competition", and E. Chamberlin on monopolistic competition.* Making the conceptions of these authors his points of departure Galbraith has also brought forward his own theory of state intervention in economic life, which we are now going to examine.

---

* Adolf Berle and Gardiner Means, *Modern Corporations and Private Property*, N.Y., 1933; Adolf Berle, *The 20th Century Capitalist Revolution*, N.Y., 1954; Gardiner Means, *The Corporate Revolution*, N.Y., 1962; Joan Robinson, *Economics of Imperfect Competition*, Lnd., 1955; Edward Chamberlin, *The Theory of Monopolistic Competition*, Cambridge, 1956.

1. EVOLUTION OF AMERICAN LIBERALS

The point of departure of Galbraith's theory is the statement that the epoch of free competition or "ideal, pure competition", as he puts it, has come to an end and with it has receded into history the epoch of "self-regulating capitalism", when its development was determined only by the action of blind, elemental laws of the capitalist market. The capitalism of free competition has, according to him, been replaced by oligopolies and "imperfect competition".

In all his works Galbraith emphasises that modern capitalist economy is now dominated by corporations. In his book *Modern Competition and Business Policy* published in 1938 he wrote about the "corporation as the dominant unit in modern economic life".* In his book *The Liberal Hour* published in 1960 he repeats that the "centrepiece of the modern capitalist economy is the great corporation".** At the same time he notes that in some branches of American industry large corporations do not as yet occupy a dominant position. Despite this the country's economy as a whole is characterised by domination of corporations, which, as Galbraith puts it, has put an end to the "competitive model" of classical capitalism.

Galbraith fully adopts the erroneous conception of the corporation contained in Professor A. Berle's work.*** The latter does not treat the

---

* H. S. Dennison and J. K. Galbraith, *Modern Competition and Business Policy*, New York, 1938, p. 66.

** John K. Galbraith, *The Liberal Hour*, London, 1960, p. 59.

*** A detailed analysis of Professor Berle's views is contained in A. Anikin's article published in this book.

large modern corporation as a monopoly. According to Berle, the corporation is but a legal form of ownership opposed to individual ownership. On the basis of the data on the part played by the large corporations in the economy of the U.S.A. (produced by G. Means) Berle, repeating Means, writes that in the 20th century there was a "revolution" in the forms of ownership, which has allegedly changed the nature of capitalism.

Galbraith accepts this treatment of the "corporate revolution" and tries to criticise Marx. In doing this he misrepresents the doctrine of Marx, ascribing to the latter an assertion that capital is presumably concentrated in the hands only of individual capitalists and not joint-stock companies.

Galbraith writes that the concept of the power of capital was based on the fact that "...the means for financing the initiation and expansion of business enterprises was concentrated in the hands of a few men. The ancestry of this idea was in Marx's doctrine of finance capital; it was not susceptible to statistical or other empirical verification at least in the United States.

"By contrast, the fact that a substantial proportion of all production was concentrated in the hands of a relatively small number of huge firms was readily verified."*

This assertion of Galbraith's is at variance with facts since Marx gave in his *Capital* the

---

Here we are dwelling briefly on A. Berle's theory of the corporation only insofar as it is necessary for understanding Prof. J. K. Galbraith's views.

* John K. Galbraith, *American Capitalism. The Concept of Countervailing Power*, Houghton Mifflin Company, Boston, Cambridge, Mass., 1952, p. 116.

history and theory of joint-stock capital as far back as the middle of last century, i.e., long before A. Berle and G. Means' "epoch-making discovery". Marx held that capitalism necessarily had to give rise to joint-stock companies which are a form of centralisation of capital, i.e., a fusing of individual capital without which no large enterprises could have come into existence. The centralisation of capital led to absorption and ousting of small and middle individual capitalists by big associated capital.

At the same time Marx and Engels showed that the joint-stock company, which may be a different legal form of capitalist ownership conceals such concentration of production and centralisation of capital which inevitably leads to formation of monopolies. This proposition of Marx and Engels was the point of departure for Lenin's doctrine of the transformation of capitalism of free competition into monopoly capitalism.

Nor does Galbraith correctly refer to "Marx's doctrine of finance capital". Marx developed a doctrine of money capital in general and loan capital in particular, while the doctrine of finance capital belongs to Lenin. Galbraith is obviously confusing these two different categories of political economy. By finance capital Lenin implied the coalescence of industrial and banking monopolies and the formation of a finance oligarchy which holds in its hands both the industrial and banking monopolies. Interlocking directorates, i.e., a system in which the directors of industrial corporations are simultaneously directors of banks and vice versa, offer the best example of such coalescence. In spite of these facts Galbraith writes that the

theory of finance capital "was not susceptible to statistical or other empirical verification".

Large modern corporations are not only a different legal form of private capitalist ownership, but, what is most important, are monopolies which dominate in the economy. Many bourgeois economists are forced to acknowledge this fact. It is also admitted by Galbraith.

Thus the large modern corporation has been given in bourgeois economic literature two different definitions. First, as a form of ownership which is opposed to individual private ownership. Secondly, a number of bourgeois economists are forced to admit that large corporations are not only a different legal form of ownership, but also a form of centralisation of capital and concentration of production, which has led to the domination of monopolies in the economy of modern capitalism.

One of the central problems of monopoly capitalism is that of monopoly and competition. The dialectical explanation of this problem was furnished by Karl Marx. In his *Poverty of Philosophy* published in 1847 he wrote: "In practical life we find not only competition, monopoly and the antagonism between them, but also the synthesis of the two, which is not a formula, but a movement. Monopoly produces competition, competition produces monopoly. Monopolists are made from competition; competitors become monopolists. If the monopolists restrict their mutual competition by means of partial associations, competition increases among the workers; and the more the mass of the proletarians grows as against the monopolists of one nation, the more desperate competition becomes between the monopolists of different

nations. The synthesis is of such a character that monopoly can only maintain itself by continually entering into the struggle of competition."*

In his theory of imperialism Lenin emphasised that monopoly capitalism is not a system of pure monopolism. He wrote: "The essential feature of imperialism, by and large, is not monopolies pure and simple, but monopolies in conjunction with exchange, markets, competition, crises."** At the same time Lenin pointed out that in the epoch of monopoly capitalism, in addition to the old forms of free competition, there arise and grow new forms: competition between the monopolies themselves, between monopolised and non-monopolised spheres of production, etc.

Thus the Marxist-Leninist theory of monopoly and competition is fully dialectical: not monopoly or competition, but monopoly and competition. This unity conceals a profound contradiction, because it is a combination of two opposite principles. Galbraith's assertion that "in the Marxian lexicon, capitalism and competition are mutually exclusive concepts"***—can be explained only by the regrettable fact that he does not know the original writings of Marx, Engels and Lenin and uses works which interpret them incorrectly.

In reality, however, the theory of incompatibility of monopoly and competition underlay precisely bourgeois political economy.

Monopoly grows out of domination in the

* Karl Marx, *The Poverty of Philosophy*, Progress Publishers, Moscow, p. 132.

** Lenin, *Collected Works*, Vol. 24, p. 464.

*** John K. Galbraith, *American Capitalism...*, p. 174.

sphere of production. If one or several enterprises hold in their hands a considerable part of the production of a commodity, this gives them a monopoly position in the market despite the competition. Monopoly, consequently, grows out of concentration of production. Contrary to this, bourgeois economists treat monopoly as absolute 100 per cent domination in the market and complete liquidation of competition. This concept of monopoly ignores the fact that the roots of monopoly are in the sphere of production.

The conception of monopoly as total absence of competition proved to be of great advantage to the monopolies since the existence of competition refutes the existence of monopoly. It was precisely for this reason that this conception was adopted as the basis of American anti-trust legislation and the practices of American courts which were supposed to fight the monopolies. With such laws the monopolies may prosper, especially since, as early as 1920, the U.S. Supreme Court passed a decision that the large size of an enterprise cannot be regarded as violation of the law. Consequently, the legislative acts in no way affected the basis of monopoly—concentration of production. Under the circumstances the monopolies grew more powerful with each passing year and the domination of monopoly prices in the market became so obvious that it was no longer possible to deny the existence of monopoly side by side with competition. Then the theory of "oligopoly" and "imperfect competition" was put forward.

Galbraith writes: "In 1932-33, under the combined attack of an American and a British economist (Professor E.H. Chamberlin of Harvard

University and Mrs. Joan Robinson of Cambridge University) the old bipolar classification of markets, competition or monopoly, was abandoned. New categories of markets, neither purely competitive nor fully monopolised, were recognised between the two. In this intermediate zone were industries whose markets had the characteristics of both competition and monopoly. They were monopolistically or imperfectly competitive.

"...From the statistical investigations as well as from everyday observation it was evident, moreover, that one of the intermediate types of markets—that of few sellers of oligopoly as it came to be called—was of commanding importance."*

Thus bourgeois economics had to admit belatedly that monopoly does not in any way abolish competition. Chamberlin's theory of monopolistic competition and the theory of oligopolies assumed the special "official" purpose of having to disprove Lenin's doctrine of modern capitalism as a special monopolistic stage of capitalism arising at the end of the 19th and the beginning of the 20th centuries. Chamberlin's superficial theory of monopolistic competition is aimed at proving that this kind of competition has existed all through capitalism. Hence the conclusion that there is no monopoly capitalism which differs from free competitive capitalism.

Chamberlin deduces monopoly not from concentration of production and centralisation of capital, but from the quality and form of the goods sold in the market. If one shoemaker

---

* John K. Galbraith, *American Capitalism...*, pp. 44-45.

sells black shoes and another brown shoes, it is, according to Chamberlin, monopolistic competition since one shoemaker has the monopoly on black shoes and the other on brown shoes. Given such interpretation monopoly capitalism existed long before the 20th century, always and wherever there was a market, because the goods of one seller always in some way differ from those of his competitor. Actually, however, the General Motors and Ford corporations are monopolies not because they manufacture different cars, but because both these monopolies control an enormous share of motor car production.

As for the theories of oligopoly and imperfect competition, they misrepresent the character of competition under monopoly capitalism.

The theory of oligopoly deals with but one of the forms of modern competition—competition between monopolies within some particular branch of industry. It limits the extent and forms of competition in modern capitalist economy since it does not cover the struggle of the monopolies in different industries, as, for example, the oil and gas monopolies against the coal monopolies, etc. This theory disregards other forms of competition. Its chief purpose is to disprove the existence of monopoly capitalism by treating monopoly as absolute monopoly.

The adherents of this theory oppose oligopoly, i.e., domination of several large enterprises, to monopoly. As a matter of fact oligopoly is nothing but monopoly. It is sufficient for one firm, one joint-stock company, one corporation to seize not necessarily more than 50, but even 20-25 per cent of the production of some branch of industry, as a result of concentration of pro-

duction and centralisation of capital, to find itself in a dominant position in the market and to be able to dictate the prices.

Such monopolised industries in the U.S.A. as the steel, automobile, oil-refining, aircraft, tobacco and others may serve as examples. According to the 1958 census, 148 companies operated in the steel industry, but the four largest ones held 53 per cent of all the steel production in their hands. In the automobile industry four of the largest corporations turned out 75 per cent of all its production; in the oil-refining industry four groups accounted for 32 per cent of all the oil products; 59 per cent of all aircraft and 82 per cent of all the tobacco were produced by four largest companies each.* It follows from these figures that the output of such giant corporations as the United States Steel, General Motors, and Standard Oil comprises but part, and often a comparatively small part, of the production of their industry. For example, Ford produces not more than one-fourth of the country's automobiles and Chrysler even less. And yet the monopolistic character of the aforementioned corporations, each accounting for not more than 20-25 per cent of the production of their industry, is well known. Several monopolies in one industry, i.e., what the bourgeois economists call an oligopoly, in some way or other agree on a single price. This does not at all require formally organised cartels. In the U.S.A. the role of cartels is played by various "institutes", like the Steel Institute, the Edison Electrical Institute, etc., which unite

* *Statistical Abstract of the United States*, 1963, pp. 789, 790.

the "oligopolies" of different industries. Actually monopoly prices can very well be established without "institutes". For this it is enough to come to a verbal agreement as a result of which the market is divided among the biggest companies and monopoly prices are established. For example, in 1959 it came to be known that the entire U.S. electrical equipment market had been divided among the biggest electrotechnical companies. Describing this the American publicist Bernard D. Nossiter writes that "the electrical machinery makers did meet to set prices and slice up markets for years. . . ."* Other cases are ruled by a system of "price leadership" when all large corporations maintain prices established by the largest of them. Price leadership is also a form of establishing single monopoly prices. With regard to this Nossitei writes: "The typical manufacturing industry has a price leader and several important followers. So, in steel, no price increase can stick unless U.S. Steel goes along with it. In farm machinery, International Harvester is top dog. In electrical machinery, General Electric is the leader and Westinghouse the most important follower. In autos, General Motors is the kingpin."**

Thus oligopolies bring about single monopoly prices and, since the aim of monopoly boils down to establishing a monopoly price and making monopolistically high profits, oligopoly is monopoly. Bourgeois economists give monopoly a semantic and not an economic interpretation. The decisive criterion in defining monop-

---

* Bernard D. Nossiter, *The Mythmakers. An Essay on Power and Wealth*, Boston, 1964, p. 53.

** Ibid., p. 52.

oly should not be 100 per cent domination in the sphere of production, but the existence of single monopoly prices, which does not at all require total liquidation of competitors. And when speaking of oligopolies and the agreements between them Galbraith writes, "this convention simply outlaws the use of prices as a weapon of competitive warfare..." and "nevertheless, the convention against price competition is inevitable under oligopoly,"* he thereby confirms that oligopoly is actually monopoly.

Thus oligopoly leads to the same thing as does absolute monopoly, i.e., to establishment of monopoly prices. Under modern capitalism a monopoly price is the result of enormous concentration of production in the hands of a few capitalists associated in corporations. The theories of "oligopoly" and "imperfect competition" are aimed at hiding the indisputable fact that the economy of highly developed countries is dominated by a few monopolies and that modern capitalism is therefore monopoly capitalism. What is more, Galbraith himself often uses the term monopoly instead of oligopoly.

The transition of free competitive capitalism to monopoly capitalism was accompanied by an aggravation of the struggle of the petty bourgeoisie, the farmers and workers against monopolies. As the domination of monopolies increases, the conflict between the monopolies and the working people, who constitute the absolute majority of the population, grows more and more acute.

Galbraith admits that the struggle of individ-

---

*John K. Galbraith, *American Capitalism...*, pp. 48, 49.

Galbraithian case: all the supply of some commodity is in the hands of a single monopoly, as is also the demand which is concentrated in the hands of a single opposed monopoly. In this case the monopoly will work by order for the market which is known. The demand of the monopsony may: 1) exceed the production capacity of the monopoly, 2) be equal to this capacity and 3) be lower than the production capacity. In the first case the prices increase, the profits will rise, capital investments will increase and with them also the production capacity of the monopoly. But when the supply and demand become balanced and the second case occurs the prices will persist on the formerly established high level. They will neither rise nor drop. But in the third case, when the supply is greater than the demand, the monopoly, as was shown in practice, does not cut the prices, but curtails production. The prices on steel and other monopolised goods during the 1957-58 economic crisis may serve as an example.

Despite the decrease in demand the monopolies not only failed to lower, but even raised the prices and simultaneously sharply curtailed production. Thus the countervailing power of a monopsony under pure monopoly capitalism would lead mainly to a rise and not to a drop in prices. Under the circumstances the stimuli to lower the costs of production by technical improvements diminish.

Actually there is no pure monopolism. Monopoly coexists with competition and the tendency to a rise in prices, and technical decay inherent in it encounters the resistance of competition which, even according to Galbraith, undermines the action of the countervailing

power. It follows that the countervailing power does not lead to a "socially desirable" result either under ideal pure monopolism or in actual reality where no "countervailing power" forms at all.

Its absence is particularly manifest in the relations between the industrial monopolies and the farmers. The numerous farms are opposed by industrial monopolies which in some cases are sellers, for example, of agricultural machinery, and in other cases are buyers of agricultural produce. Galbraith admits that the attempt at creating a countervailing power in agriculture by organising marketing co-operatives of farmers in the U.S.A. failed because the co-operatives were unable to unite the farmers on a country-wide scale and to overcome the competition among themselves. The fact that no "countervailing power" emerged in agriculture is an argument not against agriculture, but against the theory of countervailing power. The same thing takes place in some branches of the mining industry, primarily in coal mining. Here, as in agriculture, private land ownership impeded the process of concentration of production and formation of big monopolies. The industrial monopolies, including the oil-refining monopolies, dictate prices to small and middle coal-mine and oil-well operators. Under the circumstances emergence of countervailing power has as little chance as in agriculture.

Experience shows that monopolies grow on the basis of far advanced concentration of production and centralisation of capital. Without this no monopolies can arise under capitalism. Artificial creation of monopolies in the form of cartels associating numerous firms is possible

ual capitalists, especially small and middle capitalists, the farmers and workers against the increasing domination of monopolies was in the centre of the political life of the U.S.A. from the end of the 19th century to the outbreak of World War I. The beginning of the period was marked by the Sherman Anti-Trust Act passed in 1890 and its end by the 1914 Clayton Act. In that struggle all progressive forces sided with the farmers, urban petty bourgeoisie and workers; all reactionary forces were on the side of the monopolies.

The struggle ended in a victory of large-scale production over small-scale production, which in the U.S.A. constituted a victory of the monopolies over their competitors. Since the anti-trust acts failed to stop the growth of the monopolies and the ruination of the small and middle enterprises in agriculture, trade and industry, the struggle against monopolies had to go on even after passage of the Clayton Act. In the process of this struggle the class forces have been continuously regrouping. At the present time the leading role is being increasingly assumed by the working people.

In opposing the monopolies various social groups pursued different aims. The ideologists of the petty bourgeoisie demanded a return to the capitalism of free competition and a prohibition of monopolies.

Emphasising that monopoly has grown precisely out of free competition Lenin pointed out that free competition "has become impossible after it has given rise to monopoly".* Marxists therefore call not for a return to capitalism of

* Lenin, *Collected Works*, Vol. 22, p. 290.

free competition, which is no longer possible, but for forging ahead to socialism through liquidating the economic and political domination of the finance oligarchy. Galbraith wrongly interprets Lenin's doctrine when he writes that "the Marxian attack has not been on capitalism, but on monopoly capitalism".* The working class is calling upon the petty bourgeoisie and the farmers for a common struggle against monopolies not because it wants to go back to capitalism of the free competition era but because socialism eliminates the continuous threat of ruin and poverty under which the farmers and urban petty bourgeoisie live.

A return to capitalism of free competition is impossible, whereas to go ahead is to move to socialism. A considerable part of the middle bourgeoisie and the bourgeois intellectuals understand that a return to the past is impossible, but as adherents of capitalism they are opposed to socialism. For them there remained but one course—capitulation to the monopolies. This course was chosen by the American liberals, one of whom is also Professor Galbraith.

In his books he repeatedly emphasises that American liberals have always opposed monopolies, defended free competition and supported anti-trust legislation.

"In the American liberal tradition, a finding that private economic power exists has been tantamount to a demand that it be suppressed.

"...The first reaction, in point of time, was to urge more vigorous enforcement of the anti-trust laws against the newly recognised and now

---

* John K. Galbraith, *American Capitalism...*, p. 174.

ubiquitous monopoly power".* The last effort of the liberals in this direction was made in 1938, i.e., during F. D. Roosevelt's administration, when anti-trust measures were carried out more vigorously.

Galbraith is forced to acknowledge, however, that "no fundamental change in the American economy could or is likely to result from these demands for anti-trust enforcement".** Moreover, he writes that for the first time it now became necessary "to wonder if even the antitrust laws could alter the existing structure of the American economy. If not, big business and its power were here to stay".*** Thus occurred the change from the struggle against the monopolies to the recognition of the inviolability of their power, thus took place the capitulation of the liberals to the monopolies. Whereas until then liberals emphasised the shortcomings and danger ensuing from the domination of monopolies, now they began to write about their merits.

In his book *The Liberal Hour* published in 1960 Galbraith eulogised the monopolies. Speaking about small enterprises he expressed indignation that they continued to enjoy public sympathy and appealed for support of the

---

* John K. Galbraith, *American Capitalism...*, pp. 54-55. In another book Galbraith formulates the attitude of liberals to monopolies as follows: "The monster, of course, was monopoly—monopoly in the absolute sense—and once out of hand it was feared that monopoly would be more likely to control the country than be controlled by it." (Dennison and Galbraith, *Modern Competition and Business Policy*, N. Y., 1938, p. 103).

** John K. Galbraith, *American Capitalism...* p. 63.

*** Ibid., p. 7.

monopolies. He wrote: "American liberals have for many years devoted far more time and energy to regretting big business than to learning how best to live with it."*

Having capitulated to the monopolies modern liberals praise them primarily as bearers of technical progress. According to Galbraith, monopolies are the best agents for introducing technical improvements because only they have enough money for technical development. Summing up all their arguments in favour of big capital he concludes that "any branch of industry must have some element of monopoly to be progressive".**

On the basis of this Galbraith favours abrogation of anti-trust laws, the very laws for which American liberals at one time waged a struggle. Speaking about the industries in which competition is still strong Galbraith writes: "Yet almost no one would select them as a showpiece of American industrial achievement. The showpieces are, with rare exceptions, the industries which are dominated by a handful of large firms. The foreign visitor, brought to the United States by the Economic Co-operation Administration, visits the same firms as do attorneys of the Department of Justice in their search for monopoly."***

Galbraith one-sidedly regards monopoly as the bearer of technical progress. Competition continuously forces monopolies to make technical improvements. For this they have more

---

* John K. Galbraith, *The Liberal Hour*, p. 132.

** John K. Galbraith, *American Capitalism...*, p. 93.

*** Ibid., p. 96.

means and opportunities than had individual capitalists of the 19th century. Domination of the monopolies does not therefore lead to complete cessation of technical progress. In the epoch of monopoly capitalism technical development takes place much faster than in the epoch of free competitive capitalism. At the same time monopolies quite often impede technical progress, thereby intensifying the decay of capitalism. This applies particularly to the problem of overall development of the productive forces of the country as a whole and even of its different areas.

American reality offers the most vivid examples of monopolies impeding the development of productive forces. We shall mention but a few. It is well known what a negative role was played by the high railway monopoly tariffs which hindered the development of the economy of certain states, how monopolies are still preventing overall exploitation of the country's waterways, how for a period of two decades the railway monopolies prevented the construction of the St. Lawrence Canal. American monopolies are hampering the peaceful utilisation of atomic energy. They have proved incapable of undertaking purely theoretical research in mathematics, physics, astronomy and space exploration since this research does not promise rapid returns. That is precisely why Galbraith calls for state intervention in capitalist economy.

In our time the development of the productive forces has already overstepped the limits of individual enterprises and individual monopolies. The very existence of private capitalist monopolies is therefore an impediment to the development of the productive forces. Private firms

monopolise technical discoveries, make them secret, establish a system of patents, etc. In our days when scientific and technical progress is possible only on the basis of the common efforts of most diverse fields of science, technology and industry, when scientific and technical achievements must spread simultaneously to all branches of the economy, the advantage of the socialist system is particularly clear since it really offers wide scope for development of the productive forces. The overall development of the productive forces on a country-wide scale, especially on the scale of several countries, involving, for instance, the construction of hydropower stations along with irrigation systems, navigation, etc., is impossible on the basis of private capitalist property.

Having changed their attitude to monopolies the liberals were also forced to reconsider their views of the position of shareholders of modern monopolistic enterprises.

The centralisation of capital in the hands of monopolies is accompanied by separation of capital as property from capital as a function. The owner of an enterprise becomes a shareholder, whose shares give him the right to an income, to part of the profits in the form of dividends, while the management of his capital passes into the hands of a small clique of the finance oligarchy. At one time, in 1938, when Galbraith was still opposed to monopolies he rightly noted that a shareholder is unable to participate in the management of a joint-stock company if he does not own a large enough block of shares. He wrote that "where stock ownership is widely dispersed, the de facto control of the modern corporation rests partly

with the operating heads of the business and partly with a banker or investment house group or groups".*

Having changed from criticising the monopolies to supporting them the liberals have adopted the modern theory of a "managerial revolution", according to which the finance oligarchy in large corporations has allegedly been replaced by hired managers. Galbraith writes: "But most important, the professional manager or executive has taken away from the man of wealth the power that is implicit in running a business."**

It cannot be denied that the theory of "managerial revolution" is based on some processes really characteristic of modern monopoly capitalism. However, the aim of this theory is to misrepresent reality.

The enormous concentration of production in the hands of modern corporations engenders similarly immense managing and marketing staffs. Whereas formerly an individual businessman performed the functions of supervision and management and was often his own chief accountant the enormous expansion of modern monopolistic enterprises have now put an end to such combination of functions. The growth of monopolies is attended with a growth of an army of employees, not only administrative, but also technical and office workers, purveyors, salespeople, etc.

The growth of the army of employees is an expression of the social character of production

---

* H. S. Dennison and J. K. Galbraith, *Modern Competition and Business Policy*, p. 64.

** John K. Galbraith, *The Affluent Society*, Cambridge, Mass., 1958, p. 88.

under monopoly capitalism. Without this army of employees it is really no longer possible to manage the process of production and distribution. Thus the domination of monopolies engenders the machinery which makes it possible completely to eliminate the capitalists and creates the prerequisites for transition to a system of public, planned, socialist management of the entire process of reproduction. Such is the purport of the appearance and growth of the army of employees accompanying the increased domination of monopolies.

However, the modern corporation is characterised by an absolutely unlimited domination of magnates of finance capital in it. Not only the whole army of employees, but also the managers of all ranks are unconditionally subordinated to them. The essence of the so-called "managerial revolution" is revealed by an analysis of the small number of directors, presidents and vice-presidents of monopolistic corporations. These are not hired managers, nor "professional administrators", but typical representatives of the finance oligarchy.

Any president of a large corporation receives a salary which is many times that of a minister and even head of the state. The salaries and bonuses of the presidents and vice-presidents of large corporations amount to hundreds of thousands of dollars a year and greatly exceed the remuneration for the management and supervision; the source of this is monopoly profits.*

---

* In its issue of May 4, 1964, the *U. S. News and World Report* published the 1963 salaries of 884 heads of 278 of the biggest American monopolies. Of this number, 364 persons received salaries and bonuses of up to 100,000 dollars, 435 persons—from 100,000 to 200,000

Moreover, every director, president and vice-president of a corporation is at the same time a large shareholder not only of his own corporation, but also of many others, which brings him an enormous income in the form of dividends. For example, in 1963 L. Copeland, the head of Du Pont de Nemours monopoly received a salary and bonuses of 349,846 dollars, while the dividends on his own personal shares amounted to 3,400,000 dollars, i.e., almost ten times as much.

Thus the theory of the "managerial revolution" reflects the social character of production which assumes gigantic scale under monopoly capitalism in a distorting mirror, aiming to slur over and conceal the fact that large monopolistic corporations are dominated not by employees, but by a small handful of the finance oligarchy who strive to increase the profits for the purpose of personal enrichment.

Today the process of monopolising production

---

dollars, and 85 persons—more than 200,000 dollars. The latter included 6 persons who received more than 500,000 dollars. For example, the president of the General Motors automobile monopoly received a salary and bonuses of 740,900 dollars, Henry Ford II, the head of another automobile monopoly, received 575,219 dollars, and Thomas Watson, the head of the International Business Machines, received 347,246 dollars. These sums do not include the so-called "representation expenses" paid by the corporations, dues to pension funds, and, mainly, bonuses in the form of shares the incomes on which are lightly taxed. In 1963 General Motors distributed 707,254 shares and Chrysler 208,000 shares as bonuses.

It should be noted that the present salary of the President of the U.S.A. is 100,000 dollars a year. It follows that of the 884 "managers" of the largest corporations 520 received bigger salaries and bonuses than the head of state.

and marketing and the domination of the finance oligarchy has gone so far that some bourgeois and, especially petty-bourgeois, economists are urging the need to work out and legislatively establish a constitution for corporations aimed at restricting the power of these "managers" and setting up control over their activities. The rise in monopoly prices, the policy of curtailing production for the purpose of maintaining high monopoly prices, which leads to an increase in unemployment, etc., are subjected to particular criticism.

The problem of a constitution for corporations is treated in the recently published books of Gardiner Means, Richard Eells, Andrew Hacker, Michael Reagan, and others. These works discuss the legal status of the monopolistic corporations and raise the question of the responsibility of the managers to the shareholders or to "all" of society, and the need for state or democratic control of the corporations.

Defending the monopolies Galbraith opposes all projects of a constitution for corporations and any interference in the affairs of the "managers", i.e., the finance oligarchy.

American bourgeois literature propagates three points of view on corporations: 1) the corporation belongs to the shareholders and the "managers" must therefore be responsible only to the shareholders; 2) having concentrated in their hands entire industries the corporations must be managed in the interests of "all" of society; 3) state intervention in the management of corporations is at variance with "free enterprise". The last point of view represents the interests of the monopolies. It is also Galbraith's point of view.

He advocates complete autonomy of the corporations and opposes any outside interference in their affairs. He writes that "autonomy is the only administrative arrangement that is consistent with the effective corporate being".* He is against interference of the shareholders in the activities of the managers. He says that "any external influence that delays decision can do great damage to co-ordination".**

Despite his theory of state intervention in the economy Galbraith is similarly sharply opposed to state intervention in the affairs of corporations and especially to democratic control. He is against any external intervention. He writes: "I must emphasise that the corporate personality is damaged by both well-intentioned and ill-intentioned intervention".*** He believes "good" profits and rates of growth, higher than those of a competitor, to be the only criterion of evaluating the activities of a corporation.

Galbraith is trying to reinforce his position by referring to the practice in the Soviet Union, where directors of enterprises are being given increasingly more rights today. Of course, petty guardianship of the activities of Soviet enterprises and superfluous centralism in management hamper initiative from below and adaptation of production to the needs of the consumer. The Soviet Government is therefore carrying out measures aimed at eliminating these hindrances. But the granting of greater independence to a Soviet enterprise does not in any way imply

---

* John K. Galbraith, *Economic Development*, Cambridge, Mass., 1964, p. 89.

** Ibid., p 91.

*** Ibid.

liquidation of state planning and of democratic methods of management. In the Soviet Union the problem of prices is not solved by each enterprise individually. Production conferences continuously operate at every enterprise and workers' organisations play an important role both in production and social life. A similar role is played by the central and local press. There is nothing of the sort under capitalism.

Under capitalism the problem of prices and profits has an entirely different class substance. Monopoly prices and taxes are instruments of redistribution of the national income in favour of the bourgeoisie and to the detriment of the working people. Under these circumstances "autonomy of corporations" means freeing the monopolies from democratic control, which corresponds to the interests of the monopolies and consolidates the domination of the finance oligarchy.

2. THEORY OF COUNTERVAILING POWER

Capitalism of free competition has been transformed into monopoly capitalism which has developed into state-monopoly capitalism. Under the new conditions the elemental regularities of classical capitalism have undergone considerable modification. But despite the fact that monopoly is the opposite of competition, that monopolies have become the dominating power in modern imperialist economy and that monopoly has a tendency to planning, monopoly and state-monopoly capitalism are still capitalism with the elemental regularities inherent in it. A modification of the blind, elemental forces of

capitalism does not mean that they have ceased to operate.

Galbraith denies the action of elemental forces under modern capitalism. According to Galbraith, "imperfect competition" leads to results which are the exact opposite of the results of free competition. Under conditions of free competition increased demand caused expansion of production and then a fall of prices, the competition thus leading to "socially desirable results", i.e., large quantities of goods and low prices. Despite the "imperfect competition", monopoly, on the contrary, leads to opposite results—curtailment of production for the purpose of raising the prices. In 1938, for example, Galbraith wrote: "Technological advance, for example, need not work itself out now through lower prices, enlarged consumption, and, perhaps (as many once argued) eventual increases in employment. An invention now may mean only lower costs, larger profits and fewer workers."* This, he argued in 1938, explained the fact that "presently there is an excessive volume of equipment in the industry; the utilisation of plant is so low that expenses are little more than covered; and all the while consumers are paying prices higher than they need be."** Thus the domination of monopolies or oligopolies, as bourgeois economists call them, leads to curtailment of production, low utilisation of plant, unemployment and high prices, which, according to Galbraith, makes the economy extremely unstable. Coming in conflict with the theory of

---

* H. S. Dennison and J. K. Galbraith, *Modern Competition and Business Policy*, N. Y., 1938, pp. 57-58.

** Ibid., pp. 44-45.

"imperfect competition" Galbraith actually denies the role of competition under the domination of oligopolies. He writes: "Implicit in the rise of big business was the possibility that it had created a structure that departed so far from the competitive model that it could not work," and even asserts that "in the market of small numbers, the self-generating power of competition is a chimera".*

Thus from Chamberlin's theory of monopolistic competition and Joan Robinson's "imperfect competition" Galbraith slid down to a position of denying the role of competition under monopoly capitalism. In essence he returned to the old treatment of the problem—either competition or monopoly. But, unlike his predecessors, he advanced the proposition, according to which another power, i.e., a countervailing power has replaced competition. Galbraith writes: "In fact new restraints on private power did appear to replace competition. They were nurtured by the same process of concentration which impaired or destroyed competition. But they appeared not on the same side of the market, but on the opposite side, not with competitors, but with customers or suppliers. It will be convenient to have a name for this counterpart of competition and I shall call it *countervailing* power."**

By countervailing power Galbraith implies the monopoly of buyers which opposes the monopoly of sellers or, on the contrary, the monopoly of sellers which opposes the monopoly of buyers. The category of competition has disappeared.

---

* John K. Galbraith, *American Capitalism*..., pp. 81, 120.

** Ibid., p. 118.

Instead of an economy regulated by elemental forces of competition there has arisen a system of pure monopolism under which the function of competition is performed by the countervailing powers of mutually opposed monopolies of sellers and monopolies of buyers. These powers are presumably balanced by agreement or contract, and the process of this balancing is, according to Galbraith, the regulator of modern capitalism. The action of the countervailing power must, according to him, lead to a "socially desirable" result—to lowering of prices and to technological progress. That is why, in his opinion, it is necessary that the state should not hinder the formation of monopolies or oligopolies and monopsonies, as he puts it, but should, on the contrary, foster their growth in all spheres of economy and, especially, in the sphere of retail trade.

Galbraith opposes anti-trust legislation which hampers the action of the countervailing power, this new "regulator" of modern capitalism. The more freely the countervailing power acts in economy, the less it is necessary for the state to regulate it. He writes: "Steps to strengthen countervailing power are not, in principle, different from steps to strengthen competition. . . . The growth of countervailing power strengthens the capacity of the economy for autonomous self-regulation and thereby lessens the amount of overall government control or planning that is required or sought."*

If the action of the countervailing power were unlimited, Galbraith argues, there would be no need for state regulation of the economy. How-

* John K. Galbraith, *American Capitalism. . .*, p. 155.

ever, the countervailing power is, according to Galbraith, not strong enough and in some cases does not act at all, which necessitates state intervention in the economy.

Galbraith's "countervailing power" cannot be regarded as another expression of the usual competition between monopolies. Analysing the essence of competition Karl Marx emphasised that it exists in several forms, namely, as competition of capital in different spheres, as competition among producers of the same kind of commodities, as competition among labourers, and, lastly as competition among buyers.* Thus competition is a relationship: between capitalists, between sellers of goods, between sellers of labour power and between buyers. There is no competition between sellers and buyers. The relations between them are those of supply and demand, which are not competition, but which determine its character. When the supply is greater than the demand the competition between sellers intensifies and the prices drop. Contrariwise, when the demand is greater than the supply competition between the buyers increases and the prices rise. But, if the supply and demand are balanced, competition ceases and the prices become stabilised. It follows that the "countervailing power" cannot lead to a fall of prices even under free competition.

Under modern monopoly capitalism the balancing of the supply and demand does not lead to a lowering of the prices. On the contrary, in a number of cases it would foster a rise in monopoly prices. Let us imagine an ideal

---

* See Karl Marx, *Capital*, Vol. III, Moscow, 1966, pp. 175, 180, 185.

as a temporary phenomenon at times of war; when demand is much greater than supply. After war, when the economy undergoes cyclic fluctuations and when the demand is smaller than the supply, the cartels in non-monopolised or little-monopolised industries inevitably break up. But even at times of war such cartel-type monopolies in any industry are in no way a "countervailing power" acting in the direction of price reduction. On the contrary, the prices rise. At times of war demand is much greater than supply and the movement of prices is therefore governed by the law inherent in capitalism of free competition. This law was formulated by Marx as follows: "...If the demand is so great that it does not contract when the price is regulated by the value of commodities produced under the least favourable conditions, then these determine the market-value."* This means that the price of a commodity under these conditions is determined by the high costs of production at technically backward enterprises. No countervailing power can alter the effect of this law.

During World War II all anti-trust laws were repealed and the state itself feverishly organised cartel-type monopolies. In addition to monopolies of sellers there were monopolies of buyers which continuously changed places, the same monopolies acting now as sellers and now as buyers. All this should have created an ideal situation for the action of the law of countervailing power. The striving of the seller monopolies for the highest possible prices should have been balanced by the opposite strivings of the buyer monopolies.

---

* Karl Marx, *Capital*, Vol. III, p. 179.

Thus the war served as a fine test of the theory of countervailing power and fate itself assigned to J. K. Galbraith the functions of an experimenter. During World War II he was deputy administrator of the Office of Price Administration. Galbraith has set forth his experience in this control in a special book—*A Theory of Price Control*—in which he relates the difficulties and setbacks suffered by the state in the struggle against the rise in prices. In this book he is forced to acknowledge that the state-established monopoly prices were based on the costs of production at the worst enterprises. The prices rose despite the countervailing power not only of the buyer monopolies, but also of the state which during the war strove to stabilise the prices.

The prices rose because they were governed not by the law of countervailing power, but by the law discovered by Marx.

During war demand is much greater than supply. But economic history knows of an exactly opposite classical case where supply greatly exceeds demand. Galbraith ignores this possibility of verifying the correctness of his theory of countervailing power in the situation where supply enormously exceeds demand. It is the case of the 1929-33 economic crisis to which Galbraith has devoted a whole book, avoiding the problem of countervailing power.

In order to overcome the crisis, or rather the severe and protracted depression that followed it, the Roosevelt administration passed the National Recovery Act in 1933; this Act provided for a system of forced cartelisation and establishment of a so-called "code of fair competition"

for each industry. The act envisaged a compulsory unification of all enterprises, from the smallest to the largest, in cartels organised in every industry for the purpose of establishing "fair competition", but actually with the aim of completely liquidating competition by establishing a single monopoly price for every commodity.

The anti-trust laws were repealed during those years as they were during the war. For each seller monopoly there was a buyer monopoly. But, as was the case during the war, this led not to a lowering of the prices, but to their rise, which was one of the reasons for the crash of the whole system of forced cartelisation and for repealing in 1935 the law which had established the "code of fair competition".

The years of 1933-35 were characterised by a depression which followed the economic crisis when, in contrast to wartime, the supply was much greater than the demand. The law of "countervailing power" failed also under these circumstances because the situation was governed, even if in a modified form, by the law formulated by Marx, namely, "if the mass of the produced commodities exceeds the quantity disposed of at average market-values, the commodities produced under the most favourable conditions regulate the market-value."*

It follows that during profound crises, when supply is much greater than demand, not high costs of production, as at times of war, but low costs of production determine the movement of prices. Under these conditions the establishment of high monopoly prices by cartels had to fail

---

* Karl Marx, *Capital*, Vol. III, p. 179.

and this was actually the case. Of course, the monopoly prices dropped less than the prices of the goods of non-monopolised industries, but the fact remains that in a profound and protracted crisis the monopolies failed to prevent the drop in prices.

There is one more case which may serve to test the theory of "countervailing power". It is the case when the state is the only and monopolistic buyer of arms produced by a mere handful of monopolies. Galbraith has the following to say about this case: "For war goods, that is, military end products, capital goods, components or materials monopolised or largely monopolised by military employments, price control is, in principle, unnecessary. The monopsony of the procurement authority, especially when supplemented by power to requisition, is an adequate substitute for price control."* On the basis of this Galbraith recommended abandonment of state fixation of prices on arms and military materials because the monopoly of sellers is presumably balanced by the monopsony, i.e., in this case by the monopoly of the buyer which is the state.

According to Galbraith's theory, in this case a strong pressure on prices would have been exerted and this would not only have prevented the rise, but would have brought about a reduction in prices, especially with mass production of war goods. In point of fact there is no better disproof of the theory of "countervailing power" than this case. The scandalously high prices at which monopolies have been selling military

---

* John K. Galbraith, *A Theory of Price Control*, Cambridge, Mass., 1952, p. 44.

products to the state and the fantastic profits of the war monopolies are generally known.

In 1961 Senator Douglas, Chairman of the United Congressional Economic Committee and simultaneously Chairman of the Subcommittee on Government Military Procurement, came out with certain exposures which once more demonstrated that the "countervailing power" of a state interlocked with the monopolies is a fiction*. Moreover, the state has repeatedly acted as a power that supported the high level of monopoly prices. It was thus, for example, during the Eisenhower administration when prices on non-ferrous metals, especially aluminum and copper, began to drop after the Korean war. In order to maintain the prices the government bought up these metals under the pretext of replenishing the state reserves of strategic raw materials. Since World War II the state has repeatedly guaranteed to maintain high prices on aluminum under any circumstances, thus acting in the interests of the monopolies.

In recent years, however, there were cases when the state opposed the rise in prices out of general economic considerations. It was thus with the prices on steel during the Kennedy administration in 1962 when the steel monopolies raised them. Kennedy opposed this rise, threat-

---

* Commenting on these exposures the *Iron Age* wrote on February 16, 1961: "Senator Douglas points out that these reports show that military purchasing officials accepted contractors' estimates of costs which contained obvious errors or were not based on actual cost experience. He has countless examples of excessive prices. Among them are $3 wrenches for which the Army paid $29, and 25c, lamp sockets purchased by the military for $21." (pp. 74-75.)

ening to discontinue government purchases of steel. The monopolies gave in, but a year later Kennedy's government agreed to a rise in prices just the same.

In 1965, in connection with the escalation of the war in Vietnam and the increase in government arms orders, the monopolies wanted to raise the prices on aluminum. Johnson's government declared that it would dump its enormous strategic aluminum reserves on the market if the monopolies raised the prices. The aluminum monopolies retreated before this threat, but with the war in Vietnam on the government was unable to stop the general rise in prices. Under the influence of war escalation in Vietnam the index of non-ferrous metal prices (1957-59=100) rose to 105.9 in 1964 and to 118.2 in January 1966. The general index of wholesale prices has also risen.*

The government is waging a struggle against the rise in prices because this rise under conditions of increased state war orders leads to an increase in the budget deficit, inflation, devaluation of the dollar and a flowing off of gold from the country. The rise in prices in the U.S.A. strengthens the competitive ability of the European capitalist countries and of Japan in the world markets, which leads to a deterioration of the U.S. trade balance, an increased deficit in the balance of payments, increased debt of the U.S.A. and, as a result, a devaluation of the dollar as world currency and again a flowing off of gold. These are the reasons that make Johnson's government resist the rise in prices. General economic interests prevail over the interests of indi-

* *Survey of Current Business*, February 1966, pp. 3-8.

vidual monopolies, but the economic laws are stronger than the government's good intentions. As the war in Vietnam is being expanded the state's own demand increases in the first place and the prices rise despite the resistance of the state. The laws of the capitalist market are stronger than the "countervailing power" of the state which is a monopoly buyer of arms. It is characteristic that under these monopolistic conditions the state never secured, nor ever tried to secure a *lowering* of the monopoly prices, but only unsuccessfully opposed their recurrent rise.

Thus in three decisive cases the theory of "countervailing power" has failed. First, when the demand exceeds the supply and the competition between buyers increases; in this case Galbraith is himself forced to admit that the "countervailing power of the buyer, however great, disappears with an excess of demand".* Secondly, in a contrary case, when the supply is greater than the demand, the competition between the sellers intensifies and cartel-type monopolies break up. In the third case, when an absolute monopoly of the buyer in the person of the state is created and the state buys from the monopolies arms and military products; the failure of the theory of "countervailing power" is in this case also due to the fact that a modern capitalist state is not opposed to private monopolies, but is in the closest manner connected with them.

To these three decisive cases it is necessary to add a number of cases in which there is no "countervailing power" at all. These cases are the non-monopolised or little-monopolised

---

* John K. Galbraith, *American Capitalism...*, p. 137.

branches of the economy such as agriculture, the woodworking, and, in the past, the cotton, coal and some other industries. As for such highly monopolised industries as the automobile, tobacco and others, Galbraith himself writes that the "countervailing power" does not act here because the monopolies were able to subordinate all of the retail network. Nor does the "countervailing power" act under conditions of inflation. Galbraith writes: "It [the countervailing power] does not function at all as a restraint on market power when there is inflation or inflationary pressure on markets."* The question logically arises: in what cases then *does* the "countervailing power" act and what is its role in the economy of modern capitalism, if in all decisive cases the action of "countervailing power" equals zero?

The theory of "countervailing power" is a variant of the theory of equilibrium advocated by bourgeois economists. Marx showed that equilibrium is a moment of motion, that this equilibrium is maintained through its continuous disturbance. The data on the movement of prices at times of war, deep economic crises and under conditions when the monopoly of the seller is "opposed" by the absolute monopoly of the buyer (the state) show that the equilibrium is continuously disturbed both under capitalism of free competition and under monopoly capitalism. Galbraith's law of "countervailing power" does not replace competition. Competition remains under monopoly capitalism and despite the counteraction of monopolies continues to be the moving power of modern capitalism.

* John K. Galbraith, *American Capitalism...*, p. 133.

One of Galbraith's main propositions is that the state must use all its resources to create, facilitate and support the action of the "countervailing power". In the first place this applies to monopolies. According to Galbraith, the more monopolies there are in all spheres of production and circulation of goods, the more strongly will the countervailing power act and the less necessary it will be for the state to regulate the economy. If the theory of "countervailing power" were limited to this alone, it would wholly correspond to the most fundamental interests of big business, in other words, the interests of the monopolies. But at the same time Galbraith differs with the most reactionary ideologists of monopoly capital in the question of trade unions and wages. He regards trade unions as a "countervailing power" with respect to the monopolies which strive to reduce the wages. At the same time he advocates a programme of social measures concerning unemployment insurance, public health, education, science, public works, etc., and this is why Galbraith identifies himself with the American liberals. The latter, as is well known, advocate state intervention in the economy.

In 1938 Galbraith had not yet "discovered" the "countervailing power". At that time he wrote: "...We have attempted to show how far our present economic system has departed from the simple model which was supposed to be a self-regulating mechanism. We have outlined the shortcomings, wastes and strains of a system which operates without these self-regulating features, and for which self-regulation no adequate substitute has been designed."* Fourteen

* H. S. Dennison and J. K. Galbraith, *Modern Competition and Business Policy*, N. Y., 1938, p. 119.

years later Galbraith "found" what he believes to be a "self-generating force" that substitutes for competition as a self-regulator of modern capitalism.* However, Galbraith contradicts himself when he characterises modern capitalism now as a system which has lost the mechanism of self-regulation and now as a disequilibrium system**. In 1938 he wrote that the "mechanism of self-regulation was lost", but after discovering the "countervailing power" in 1952 he substituted the word "automaticity" for "mechanism". In his book *Economics and the Art of Controversy* published in 1955 he wrote: "We may conclude, then, that there is now effective political agreement between the two major parties on rejecting the notion of economic automaticity and in accepting the need for government guidance to the economy."***

The assertion that there is no automaticity in the functioning of modern capitalist economy is equivalent to the erstwhile statement of the loss of the mechanism of self-regulation; it also refutes the conception of "countervailing power" which only three years earlier was regarded as a self-regulator of modern capitalism. If the "countervailing power" were the motive force of monopoly capitalism, there would be no need for state intervention. But Galbraith is calling for state intervention, which signifies that the "countervailing power" of the monopolies is ineffective.

---

* John K. Galbraith, *American Capitalism...*, p. 120.

** John K. Galbraith, *A Theory of Price Control*, pp. 29, 33, 41, 42, 43, 47, 54.

*** John K. Galbraith, *Economics and the Art of Controversy*, New Brunswick, 1955, p. 62.

According to Galbraith's theory, the state must intervene in two ways: first, by intensifying the action of the "countervailing power" through patronising the monopolies and repealing the anti-trust laws, and, secondly, by acting as a "countervailing power" wherever no private "countervailing power" forms or where it acts inadequately. Galbraith writes: "In the light of the difficulty in organising countervailing power, it is not surprising that the assistance of government has repeatedly been sought in this task. Without the phenomenon itself being fully recognised, the provision of state assistance to the development of countervailing power has become a major function of government—perhaps the major domestic function of government."*

Galbraith does not openly say that the state is a "countervailing power", he merely speaks about government *assistance* to this power. In his conception, however, the state is actually a "countervailing power" wherever it has not formed without the state or where it does not suffice to balance the situation. An example of this is agriculture where, according to Galbraith, the attempts to organise a "countervailing power" in the form of marketing co-operatives failed. He writes: "After the farmer had failed to organise market power by himself, it was wholly in the tradition of the development of countervailing power that he should turn to the government for assistance."** This assistance manifested itself in a series of state measures which were in line with typically monopoly practices. The government tried to raise the

---

* John K. Galbraith, *American Capitalism...*, p. 133.
** Ibid., p. 167.

prices on agricultural products by curtailing production. By such methods the state attempted to balance the prices of industrial commodities and agricultural products.

In the book *The Affluent Society* published in 1958 Galbraith wrote about the absence of "social equilibrium" in modern capitalist society. He believes provision of this equilibrium to be a function of the state, and the state itself therefore appears as a "countervailing power".

From this conception it follows, in the first place, that the state is a supra-class power because, in order to countervail the "great market power" of the monopolies, the state must oppose them. Galbraith not only takes it for granted that the state stands above classes, but, what is more, holds that the modern capitalist state presumably defends primarily the interests of the "weak side", i.e., the farmers, workers, employees, etc. And that is just the way he puts it: "...The corporation, unlike the worker, farmer, or other individual citizen, has been able to reduce its insecurity without overtly seeking the assistance of the state.... Farmers, workers and other citizens, by contrast, have had to seek the assistance of government or (as in the case of the unions) they have had to organise specially for the purpose of reducing insecurity."*

Thus, according to Galbraith, the capitalist state acts as a countervailing power with respect to monopolies in the interests of the workers and farmers. In reality, however, the modern capitalist state is organically interlocked and coalesced with the monopolies, for which reason the bourgeois state, being an instrument of the

---

* John K. Galbraith, *The Affluent Society*, p. 102.

capitalist class domination and oppression, is concerned primarily with the interests of the monopolies.

The monopolies aggravate the contradictions of capitalism which engender a number of difficulties that jeopardise the domination of capital. A particular danger in this respect is, according to Galbraith, the unnecessary inequality in the distribution of individual incomes. This inequality in the distribution of incomes engenders, as is well known, economic crises. Galbraith does not use the term "crisis". He writes that "Marx's reference to the 'capitalist crisis' gave the word an ominous sound.... As a result the word depression was gradually brought into use. This had a softer tone".* But verbal exorcism does not eliminate the continuous threat of economic crises with all their consequences. "The menace of depressions," Galbraith continues, "is not the production that is sacrificed but the jobs and income that are lost—in short, the threat to economic security."**

In general, the domination of monopolies brings about insecurity of the entire economic system and an aggravation of the class struggle. Galbraith writes that "the clash of interest between those who have and those who have not is obvious and inescapable."***

Hence the anxiety of the American liberals for the fate of capitalism, which Galbraith formulates as follows: "In principle the American is controlled, livelihood and soul, by the large corporation; in practice he seems not to be com-

---

* John K. Galbraith, *The Affluent Society*, p. 45.

** Ibid, pp. 128-29.

*** John K. Galbraith, *American Capitalism...*, p. 113.

pletely enslaved. Once again the danger is in the future; the present is still tolerable. Once again there may be lessons from the present which, if learned, will save us in the future."* Speaking of the liberals and the group of American bourgeois economists who adhere to liberal views and take into consideration the danger inherent in the monopolies Galbraith continues: "This group has gone on to the conclusion that the government must act to insure good economic performance. Its adherents uniformly have argued that the intervention involved is by far the lesser evil and poses a far smaller threat to the survival of capitalism than the alternative instability."**

Galbraith has produced the clearest bourgeois theory of state intervention in the economy in the epoch of monopoly capitalism. State intervention is indeed engendered by the instability of the capitalist system, the aggravation of the class struggle, the danger of destruction of capitalism and the need of the bourgeoisie to save capitalism by all manner of state measures aimed at strengthening the capitalist system under conditions of obvious superiority of the world socialist system. In short, the necessity for state intervention is the result of the deepening of the general crisis of capitalism.

It follows that, according to Galbraith's theory, the state must act as a power that counteracts the economic instability of capitalism.

At the time of Franklin D. Roosevelt's administration, i.e., during the severe and protracted depression that followed the 1929-33 economic

---

* Ibid., pp. 116-17.

** John K. Galbraith, *Economics and the Art of Controversy*, pp. 48-49.

crisis and then during the new 1937-38 economic crisis, i.e., a whole decade characterised by extensive unemployment, bourgeois and especially petty-bourgeois theoreticians of state intervention advocated the point of view that this intervention was to take the form of state regulation and even "planning" of the capitalist economy. Supporting the standpoint of some of the liberals and petty-bourgeois radicals of the time Galbraith wrote that "the evident alternative to competition is public regulation or planning".*

The period of Roosevelt's presidency before the war and especially during the war was marked by a considerable increase in state ownership of the means of production, transport, etc. Hence the idea that "the most plausible alternative to competition is full public ownership of those industries where competition is ineffective".** As for "planning", according to Galbraith, "a minimum requirement of planning, for an economy where competition is no longer assumed to regulate prices, would be systematic price regulation by the state."***

After World War II the economic situation in the U.S.A. changed. Under the new conditions direct "planning" of production and distribution was no longer needed, nor was it necessary for the state to regulate prices. The monopolies now demanded liquidation of state ownership, cessation of wartime state regulation and "freedom of enterprise". It was precisely under those conditions that the theory of the "countervailing power" of the state came into being. This theory substantiated the rejection of "planning" and

* John K. Galbraith, *American Capitalism...*, p. 58.
** Ibid., p. 59.
*** Ibid.

rigid regulation of production and distribution characteristic of wartime. The whole problem now was to make private "countervailing power", i.e., the power of monopolies, come into play.

Galbraith distinguishes two ways of regulating the economy: centralised decisions, i.e., state intervention, and decentralised decisions of the monopolies, i.e., impact by private "countervailing power" which must act as a mechanism of self-regulation of modern capitalism. He writes that "...administrative considerations now provide capitalism with by far its strongest defence against detailed interference with private business decision".* According to Galbraith, the following proposition must therefore become the basic principle of modern capitalism: "Intervention should be limited.... Supervised self-regulation rather than control best describes what is required."**

In his work *American Capitalism* published in 1952 Galbraith vaguely advocated state control and even state ownership of the utilities. In 1960, however, he came out against nationalisation of the industry. He wrote that a balance between private and public services must be established by fiscal means, by taxation. "I think," he said, "that the will to levy taxes and make resources available for public use is something that can be exploited very much more than so far."***

Thus the conception of "countervailing power" theoretically substantiated the turn in economic

---

* John K. Galbraith, *American Capitalism...*, p. 176.

** John K. Galbraith, *The Liberal Hour*, L. 1960, pp. 78, 79.

*** *The Twentieth Century*, September 1960, pp. 204, 205.

policy of the capitalist state after World War II. This turn consisted in transition from direct state regulation of the economy during the 1929-39 crisis and depression and at wartime to such state-monopoly means as are now used by both Democratic and Republican administrations; these means are a budget policy which provides for state subsidies to monopolies in an open or concealed form of "accelerated amortisation", tax abatements for monopolies, government procurement to monopolies, etc.

The rejection of direct state control and "planning" does not in any way mean that Galbraith rejected the idea of state intervention in economic life in general. In step with the times he correspondingly substantiates new forms and new methods of state intervention. This is the essence of the transition from "centralised" to "decentralised" decisions.

3. PROBLEM OF ECONOMIC CRISES

One of the most important parts of Galbraith's theory deals with state anti-cyclical measures. The problem of crises runs all through his works, from the first—*Modern Competition and Business Policy*, written under the direct impression of the "tragic decade" of 1929-39, to his *Affluent Society* published in 1958.

In the foreword to his book *Modern Competition and Business Policy* Galbraith idealises the epoch of capitalism of free competition, which, despite occasional "slumps" was in his opinion, on the whole an epoch of prosperity. This is, as is well known, at variance with facts, especially with respect to the period following the 1861-65 Civil War when the economy of the U.S.A. was

shaken by such deep and protracted crises as those of 1873-75, 1882-85 and 1893-94. As for the first two decades of the 20th century, they were marked by the acute economic crises of 1907-08, 1913-14 and 1920-21.

Galbraith had to idealise the history of American capitalism in order to emphasise the part played by the 1929-33 crisis in the change of the state's economic policy. Dealing with the 1929-39 period Galbraith wrote that "the periods of sickness might not only be serious, but might became chronic and lead to complete collapse".*

According to Galbraith, in all of the country's history the economy of the U.S.A. was particularly shaken only by two events: the 1861-65 Civil War and the 1929-33 economic crisis with the subsequent prolonged depression. He writes:

"Measured by its continuing imprint on actions and attitudes, the depression clearly stands with the Civil War as one of the two most important events since the Revolution. For the great majority of Americans World War II, by contrast, was an almost casual and pleasant experience."** He reiterates this evaluation of the economic crisis and World War II in his later book *The Liberal Hour*.***

This evaluation of the role of the 1929-33 economic crisis in the history of the U.S.A. has a direct bearing on Galbraith's theory because his starting point in substantiating the necessity for state intervention is not the wars of the epoch of imperialism, but economic crises.

---

* H. S. Dennison and J. K. Galbraith, *Modern Competition and Business Policy*, Foreword.

** John K. Galbraith, *American Capitalism*..., p. 69.

*** John K. Galdraith. *The Liberal Hour*, pp. 85, 86.

During World War I and, especially, World War II the state intervention in the economic life of the U.S.A. assumed the form of direct and thoroughgoing state regulation of production and distribution. Galbraith was one of the leaders of this regulation characteristic of wartime state-monopoly capitalism. Despite this the experience of wartime state regulation of the economy is given extremely little consideration in his works. His only work on this problem *The Theory of Price Control* treats the problem not so much from the standpoint of military economy as from that of the theory of "imperfect competition".

There are three reasons why Galbraith did not care to make a theoretical study of the experience of state regulation of the economy at times of war; first, he regards war as a special, extraordinary situation and state regulation of the economy not as a natural but a casual and transient phenomenon of modern monopoly capitalism, second, he is against direct state regulation of the economy and prefers the action of the private "countervailing power" of the monopolies and third, and most important, from the point of view of the security of capitalism in its competition with communism he considers economic crises to be the greatest menace to capitalism. And that is the way he puts it: "Here, at least equally with communism, lies the threat to capitalism."*

Galbraith's theory of state intervention is prompted by a striving to overcome or at least to moderate and smooth over the cyclic shocks to capitalist economy. He writes: "The preven-

---

* John K. Galbraith, *The Great Crash. 1929,* Cambridge. Mass., 1955, p. 174.

tion of depression remains the *sine qua non* for economic security."*

But to overcome, or at least moderate, economic crises it is necessary to know their causes. This is the weakest point in Galbraith's theory. In his book which specially considers the 1929 Stock Exchange crash he does not even undertake to elucidate the causes of the cyclic crises that have periodically shaken the economy of the U.S.A. over more than 100 years. He merely states the fact that cyclic fluctuations are inherent in capitalism and asserts that crises are a mere rest after economic strain. He has the following to say about it: "The notion that the economy requires occasional rest and resuscitation has a measure of plausibility and also a marked viability."**

This point of view is, of course, far from a scientific explanation of the causes of economic crises and their periodicity. These phenomena were explained by Karl Marx who revealed not only the main cause of economic crises—the contradiction between the social character of production and the private form of appropriation—but also the material basis of their periodicity which is in the movement of fixed capital.

Galbraith does not accept this truly scientific theory of crises. Nor has he any theory of cycles at all. For a general theory he substitutes his study of the concrete causes of only the one economic crisis of 1929-33. Here he discovers five main causes: 1) incorrect distribution of the national income, 2) imperfect structure of the corporations, 3) inefficient banking structure

---

* John K. Galbraith, *The Affluent Society*, p. 112.

** John K. Galbraith, *The Great Crash. 1929*, p. 156.

4) active trade balance with great indebtedness of capitalist Europe to the United States, and 5) low level of economic knowledge.

Examining the problem of "incorrect" distribution of the national income Galbraith states that the movement of wages greatly lagged behind the increase in profits and that the incomes of farmers were in a similarly deplorable state. But, according to Galbraith, these "shortcomings" are not inherent in the capitalist system as such, but characterise the concrete situation of the seven years which preceded the 1929 economic crisis.

According to Galbraith, all these causes can be eliminated under capitalism. The whole purpose of his book is to show that they were not eliminated because of the inaction of Coolidge's and Hoover's administrations, their "intuitive belief in *laissez-faire*—in the benign tendency of things that are left alone"*. The main conclusion Galbraith draws from his study of the 1929 Stock Exchange crash is that of the necessity for state intervention. Galbraith writes that, whereas formerly there were differences between the liberals and conservatives on this question, now these differences have been exhausted. "The avoidance of depression and the prevention of unemployment have become for the politician the most critical of all questions of public policy."**

Still Galbraith does not maintain that state intervention can completely eliminate crises. Again and again he emphasises that "private capitalism is inherently unstable", and that "at

---

* John K. Galbraith, *The Liberal Hour*, pp. 110-14.
** John K. Galbraith, *The Great Crash. 1929*, p. 170.

some time in the future, the United States will have a serious depression".*

These statements are aimed at emphasising the necessity for state intervention in the economy in order, if not to overcome, at least to moderate the economic crises.

The general direction to state anti-cyclical measures was given by Keynes. They are, in the first place, an increase in state expenditures which must make up for the decrease in investments by private capitalists, a policy of paper money inflation, stimulation of private investments by low interest rates, appropriate taxation policy, increase in individual consumption, particularly by unemployment relief, but with a simultaneous reduction in real wages as a result of inflation.

A certain effect of these measures cannot be denied. For example, Karl Marx noted the effect produced by the interest rates on the movement of capital investments long before Keynes. But, unlike Keynes, he pointed out that not in all phases of the cycle can low interest rates foster an increase in production. The interest rates depend on the process of capitalist reproduction, though conversely the movement of the interest influences the course of reproduction. It was precisely Marx who wrote that the "reverse effect of money trade on production is becoming still stronger and more complex".**

The already standard Keynesian recipes about which Galbraith writes a good deal do not always produce positive effects. They were unable, for

---

* John K. Galbraith, *American Capitalism...*, pp. 5, 8.

** Karl Marx and Frederick Engels, *Works*, Vol. 28, Russ. ed., p. 257.

example, to prevent the economic crises. Since World War II the U.S.A. has already had four recessions and, as Galbraith admits, it is entirely uncertain that there will be no "serious" new economic crisis.

And still, like many bourgeois and reformist theoreticians of state intervention, Galbraith is a pupil of Keynes whom he credits with "saving" the capitalist system during the critical period of 1929-33.

This is what Galbraith writes about him: "There remained in 1933 the only possibility of abandoning capitalism entirely. This was a project which raised the question of alternatives concerning which only a handful of Communists were in any way clear. . . . It was Keynes who provided the escape from the dilemma—and the words."* According to Galbraith, Keynes' contribution consists not only in that he gave the theory, but also the practical suggestions for saving capitalism by a number of state measures.

In the U.S.A., as Galbraith emphasises, "liberals almost spontaneously adopted the Keynesian formula".** But today, while remaining a Keynesian as regards the necessity for state intervention, Galbraith criticises some of the Keynesian recipes which he considers outdated. He is forced to admit that a reduction in the interest rates far from always causes an enlivening and rise in production. He writes: "High interest rates had failed miserably to arrest the speculative boom of the late twenties; low rates were equally ineffective in dealing with the Great Depression."***

* John K. Galbraith, *American Capitalism. . .*, p. 82.

** Ibid., p. 83.

*** John K. Galbraith, *The Affluent Society*, p. 228.

On the whole Galbraith is critical of the credit and monetary manipulations as means of achieving economic stability, but he is particularly vehement about the policy of inflation which plays a decisive part in Keynes' theory. He writes: "Those who endorse an inflation of the modern sort are endorsing a policy of giving the most to the biggest and strongest and the least to the smallest and weakest. This is not the whole case against this inflation. It breaks faith with those who save. It is damaging to public services. It rewards not the most gifted people, but the most gifted money-makers. It has had a devastating effect on our exports and it has greatly and unnaturally stimulated imports. The consequence has been a serious and possibly alarming deterioration in our balance of payments. But one point above all must be seen with clarity. The modern inflation is not neutral. Because of its inevitable identification with economic strength, it is inequitable, regressive and reactionary"*. This formidable philippic against inflation strikes both at Keynes and at Galbraith's own conception of "countervailing power".

It should be remembered that by inflation Galbraith implies a rise in prices in general. But, not every rise in prices is a result of inflation. If we disregard the cyclic rises in prices during the phases of upsurge, which are not caused by inflation, there are two main causes of rises in prices in the capitalist countries today. The first cause is the increased domination of the monopolies with their high monopoly prices which are a means of plundering the masses of the

* John K. Galbraith, *The Liberal Hour*, p. 73.

people—industrial and office workers and farmers, i.e., the absolute majority of the population.

A rise in monopoly prices is not inflation. But under present-day conditions of state-monopoly capitalism, when state orders to private monopolies play an important part in the economy, a rise in monopoly prices fosters inflation. It means that the state has to pay more, and an increase in state expenditures causes deficits in the state budget that are the cause of real inflation.

In the U.S.A. the budget deficits are covered by loans which in their turn serve as security for the banknote emission. The banknotes have actually become the paper money. As a result of deficit financing of the state-monopoly measures an increasingly greater mass of paper money is pumped into the channels of money circulation above the needs of the commodity circulation expressed in gold. Under these circumstances paper money is depreciated, that is the prices on goods rise. This is real inflation.

Galbraith is against the rise in prices in general and, especially, against their rise as a result of real inflation. This opposition deserves attention because it marks a turn of some of the liberals from the Keynesian inflation policy toward a budget balance, which is a revision of the Keynesian principles.

Keynes' theory was engendered exclusively by the 1929-33 deep economic crisis which was accompanied by a sharp drop in prices on the goods, especially of the non-monopolised spheres of production, including agricultural products Under those conditions the policy of inflation really helped the economy out of the crisis and the depression.

The policy of inflation pursued by the Roosevelt administration between 1933 and 1939 offered advantages to all debtors, primarily to the farmers whose holdings were heavily mortgaged, and to industrial capitalists who were burdened with large debts to banks. The rise in commodity prices with a nominal constancy of the indebtedness was equivalent to writing off part of the debts. The inflation was particularly advantageous to industrial capital because profits increased, since under the conditions of vast unemployment wages climbed slower than prices. That is why, under the conditions of a sharp drop in prices, caused by the 1929-33 crisis, the inflation, in addition to other factors, helped the economy out of the crisis.

The present-day situation fundamentally differs from that of 1933-39. Today the largest debtor is the state. In 1933 the national debt amounted to 22,500 million dollars. By 1939 it had increased to 40,400 million dollars. By July 1965 the national debt reached the enormous sum of 318,000 million dollars. As for the private loans granted by all commercial banks, in July 1965 they amounted to only 188,600 million dollars.*

The creditors of the state are not only banking, but also industrial monopolies which resist the writing off of part of the state indebtedness by inflation. That is why today both banking and industrial capital are against inflation. On the contrary, they would profit more from deflation which increases the profits on the loans granted to the state. Thus, in the given

---

* *Federal Reserve Bulletin*, February 1966, pp. 228, 240.

concrete situation, the break of the liberals with Keynes' theory in favour of the budget balance coincides with the interests of the monopolies.

It would be wrong to assume, however, that in his opposition to inflation Galbraith is guided only by the interests of the monopolies. Inflation strikes at all sections of the population with a fixed income. These are small investors, people who live on the income from an inheritance and who have deposited their money in banks, pensioners, etc. But the largest section of people with a fixed income is that of civil service and monopoly employees. The proportion of these employees, including ordinary engineers, technicians, teachers, etc., in the country's population has very greatly increased. Inflation depreciates the income of the employees, lowers their living standards and causes discontent and restlessness among them.

Inflation produces serious political results. It causes a reduction in the real wages of industrial and office workers. Organised workers resist the lowering of their living standards. This is attested by the increase in the strike movement in the U.S.A. during the post-war years. Inflation, consequently, causes an intensification of the class struggle in the country and a revolutionisation of broad masses of the people.

Industrial and office workers are against a rise in prices regardless of its cause—whether it is the increased domination of the monopolies or inflation. This circumstance particularly worries the liberals. Galbraith writes: "Over much of the world there is a rough and not entirely accidental correlation between the strength of indigenous Communist parties or the

frequency of revolutions and the persistence of inflation."*

Thus a fear of communism is the main reason for a certain part of modern liberals to reject inflation as a source of financing the state-monopoly measures. In general the repudiation of Keynes in this question is due to the change in the situation. Today inflation is neither in the economic nor in the political interests of the monopolies and they therefore strive to restrict it. However, the enormous expenditures on arms in which the monopolies are interested act in the opposite direction. Instead of inflation Galbraith suggests an increase in taxes, especially indirect taxes whose whole burden falls on the mass consumer, i.e., the industrial and office workers and the farmers.

4. "AFFLUENT SOCIETY"

During World War II the economic situation in the U.S.A. sharply changed compared with the pre-war decade (1929-39) with its low level of industrial production, severe agrarian crisis, many millions of unemployed and the grievous situation of the farmers. During the war the industrial output more than doubled, unemployment gave way to a shortage of labour power, the real wages increased, even if only a little, the prices on agricultural products rose and the farmers' debts on mortgages decreased. The human casualties suffered by the U.S.A. during the war were not many. The change in the

* John K. Galbraith, *The Affluent Society*, p. 266.

economic situation of the U.S.A. was so rapid and sharp that bourgeois economists described it as a "revolution".

The cold war against the Soviet Union and other socialist countries, begun after World War II, and then the war in Korea caused another increase in military production. The state military orders were kept on a level which was uncommonly high for peacetime. The enormous accumulation of capital, the savings made by the population during World War II and the subsequent increase in consumers' credit stimulated a demand for durable goods, an increase in housing construction and a farther increase in capital investments. The rehabilitation of the war-devastated European economy fostered an increase in the American export, etc. "Good times" came accompanied with pleasant illusions. An expression of these illusions was Galbraith's book *The Affluent Society* written on the eve of the 1957-58 economic crisis. *The Affluent Society* became the new creed of the Right-wing Socialists in Western Europe.

The main idea of *The Affluent Society* was already contained in the book *American Capitalism. The Concept of Countervailing Power* which came out seven years earlier, at the height of the Korean war. Already then Galbraith wrote: "In the United States, in recent times, for most people the biological minimums of food, clothing and even shelter have been covered as a matter of course." He criticised the bourgeois economists who "... have brought the mentality of nineteenth-century poverty to the analysis of twentieth-century opulence".*

---

* John K. Galbraith, *American Capitalism...*, p. 108.

Galbraith's favourite argument in favour of "affluence" is the existence of advertising. He holds that only goods of which there is plenty are advertised. He writes: "It is not necessary to advertise food to hungry people, fuel to cold people or houses to the homeless."*

Galbraith always confuses two entirely different things: requirements and effective demand. The lag of effective demand behind the amount of goods produced under capitalism causes a relative surplus of goods. Hence the intensified competition and the struggle for the consumer's dollar with the aid of advertising. The enormous expenditures on advertising are not only an indication of competition, they not only serve the purpose of informing the consumers of new goods, but are also an expression of capitalist wastefulness, which attests that not all is well in this society. In his book *Modern Competition and Business Policy* written in the 1930s Galbraith regarded advertising as a negative phenomenon engendered by competition. At that time he wrote: "This part of the present marketing expenditure serves no more useful social purpose than to separate the other fellow from a part of his business."** Then he called advertising a waste. This sober view of advertising is absent from *The Affluent Society* where advertising is represented as a sign of abundance, a means of creating requirements by persuasion of satiated consumers. Now Galbraith writes that advertising is "effective only with those who are so far removed from physical want that they do

---

* Ibid., p. 103.

** H. S. Dennison and J. K. Galbraith, *Modern Competition and Business Policy*, p. 47.

not already know what they want. In this state alone men are open to persuasion".*

According to Galbraith, the production of goods in the modern "affluent society" exceeds the absolute requirements. He writes: "Now goods are abundant. More die in the United States of too much food than of too little."** This abundance of goods is accompanied, according to Galbraith, by a tendency to equalising the distribution of the national income, which presumably implies an effacement of the class differences.

Noting the existing inequality in the distribution of the national income Galbraith at the same time emphasises that "meanwhile there has been a modest reduction in the proportion of disposable income going to those in the very highest income brackets and a very large increase in the proportion accruing to people in the middle and lower brackets".***

Galbraith reiterates the favourite thesis of the Right-wing Socialists that Marx's prediction of the pauperisation of the masses and polarisation of wealth at one pole and poverty at the other has not materialised.

The main idea of *The Affluent Society* is an assertion that the people of the highly developed capitalist countries have, without abandoning capitalism, crossed the border of poverty and have entered the kingdom of material abundance. With such an abundance no further increase in the production of goods is, according to Galbraith, necessary because the achieved level

* John K. Galbraith, *The Affluent Society*, p. 158.
** Ibid., p. 123.
*** Ibid., p. 85.

of production fully provides for the absolute requirements of society.

The effect of increasing affluence is, according to Galbraith, "to minimise the importance of economic goals. Production and productivity become less and less important."* Hence Galbraith's conclusion that the role of the managers of production as the leaders of society must diminish. The "affluent society" is, according to Galbraith, noted for its comparative economic stability. Although the crises have not been overcome, Galbraith asserts that they have been considerably moderated by the intervention of the state.

As was already mentioned, all of Galbraith's theory rests on the changes in the post-war economic situation in the U.S.A. as compared with the pre-war years of deep crises and depressions. Galbraith even asserts that in his "affluent society" there are actually no unemployed. The existing unemployment is presumably caused not by economic, but by subjective factors.

Such a comparison of the pre-war and post-war years is superficial. New times have brought new conflicts and shocks which in no way attest the stability of the U.S. economy. The post-war economic crises, the deficits in the balance of payment, the flowing off of gold from the country, the shaken position of the dollar, etc., may serve as examples. Characteristic of the economy which Galbraith calls the "affluent society" are the enormous military expenditures that run up to 65 per cent of the state budget. The cold war leads to an increase in the national debt

---

* John K. Galbraith, *The Affluent Society*, p. 146.

and inflation whose whole burden falls on the working people.

The excess of production capacities, the chronic underloading of the industrial enterprises and the inability of American capitalism to make use even of the available productive forces are all an expression of the instability and decay of the capitalist economy. In *The Affluent Society* everything is represented upside down. In actual fact, there is no absolute excess of production capacities and goods; there is merely an inadequate purchasing power in the capitalist world with the result that the goods find no markets and the enterprises must work below their capacity. Signs of decay of capitalism Galbraith takes for signs of prosperity. Yet even the 1965-66 boom is due to the shameful war in Vietnam and not to a liquidation of poverty in the U.S.A.

Galbraith's central thesis formulated in *The Affluent Society* is that American capitalism has allegedly succeeded in overcoming the poverty and want of the masses and in providing the people with food, clothing and even shelter. Of course, owing to a number of historical factors (existence of large tracts of uncultivated lands, absence of feudal relations, continuous shortage of labour power in the 18th and 19th centuries, etc.) the wages in the U.S.A. were always higher than in capitalist Europe and much higher than in Asian, African and Latin American countries which until recently were colonial or semi-colonial.

In the 20th century the world wars brought ruin to the working people of Europe, whereas the U.S.A., on the contrary, grew rich on the wars. The huge profits made by the U.S. bour-

geoisie enabled it to make certain concessions to the working people under the impact of the socialist world and the intensification of the class struggle in the capitalist world.

By all of the foregoing reasons the working class of the U.S.A. found itself, compared with the workers of the rest of the capitalist world, in a position of workers' aristocracy. The average living standards in the U.S.A. are higher than in the rest of the world. But all this does not in any way mean liquidation of poverty, equalisation of the incomes or effacement of the class differences in the U.S.A. It merely means that the borderline of poverty and want is less pronounced in the U.S.A. than in other capitalist countries. The latest studies of American bourgeois economists completely disprove the main propositions of *The Affluent Society*.

In the first place it is necessary to note the unreliability of the official American statistical data on the distribution of incomes. Whereas industrial and office workers are paid their wages according to a pay roll, minus the taxes, the bourgeoisie understates its incomes, falsifies documents and finds a thousand loopholes to evade taxes. The declared incomes of the bourgeoisie are usually so understated that in 1960 the Democratic Party included in the election programme a point against tax evasion. That is why plans to reduce the incomes of capitalists hold no water. But despite the unreliability of the statistical data the latest studies of Professor Robert J. Lampman based on official data show that the share of only 1 per cent of the entire adult population of the U.S.A. amounted to 23.3 per cent of the total wealth in 1945, 26 per cent in 1956 and 28 per cent in 1961. It

should be noted that in 1933 the share of 1 per cent of the population amounted to 28.3 per cent of the country's total wealth. Citing these data *The American Federationist*, organ of the pro-monopoly leadership of the American Federation of Labour, wrote that after World War II "the share of the families at the bottom has been going down while the already disproportionately large share of the wealthiest continues to go up".*

Analysing the latest statistical data Doctor Herman P. Miller, special assistant in the demographic section of the U.S. Bureau of the Census, wrote, to disprove what is stated in *The Affluent Society,* the following: "A myth has been created in the United States that incomes are becoming more evenly distributed. This view is held by prominent economists of both major political parties.... The statistics show no appreciable change in income shares for nearly twenty years.... In 1935, the poorest 20 per cent of families received only 4 per cent of the income. Their share rose to 5 per cent in 1944 and has remained at that level ever since.... These figures hardly support the picture that many Americans have been given about the equalisation of incomes in our society."**

On the basis of the existing level of prices bourgeois economists hold that the borderline of poverty in the U.S.A. is an annual income of 3,000 dollars, while an annual income of 6,000 dollars is a minimum for a modest living of a family of four. Professor Leon H. Keyserling, one-time Chairman of the President's Council of

---

* *The American Federationist*, November 1962, p. 18.
** Herman P. Miller, "Is the Income Gap Closed? No!" *The New York Times Magazine*, November 11, 1962, p. 50.

Economic Advisers during the Truman administration, is forced to acknowledge the following: "... The number of families in the United States who have real incomes below 4,000 dollars a year is as high now as in 1953, which means that there has been virtually no progress in the liquidation of individual poverty. Today about one-fourth of all families have incomes below 4,000 dollars, and their average income is in the neighbourhood of 2,500 dollars. Fully half of all families have incomes below the 6,000 dollar figure which at least in urban and suburban areas is generally regarded as the amount required to maintain an adequate but modest standard of living."*

During his election campaign in 1964 President Johnson cited data showing that of the 47 million American families 9,352,602 families, i.e., more than 20 per cent of the total number, had an annual income amounting to half the official modest subsistence standard. Moreover, 8,976,618 families had an annual income insufficient to provide the most modest standard of living for a family of four.**

Poverty and want have become the lot of the broad masses of American farmers. Their conditions are one more refutation of *The Affluent Society*.

The scientific and technical revolution in agriculture under capitalism has put an end to the bourgeois theory of security of the small and middle farmers, the security of what is called in the U.S.A. the "family farm." The scientific and technical revolution is accompanied by ruin-

---

* *The Progressive*, November 1960, p. 15.

** *Magazine of Wall Street*, April 4, 1964, p. 70.

ation of family farms and concentration of production on large capitalist farms. As late as 1935 the U.S.A. numbered 6.8 million farms. Twenty-five years later there remained only 3.7 million farms. Nearly half the number of farmers were ruined during that period. The process of ruination of farmers in the "affluent society" is continuing. According to the 1959 census, of the remaining 3.7 million farms 1.6 million or 44 per cent brought a net average annual profit of 217 dollars per farm. Together with farmhands these farmers constitute the most unfortunate part of the U.S. population.

At the same time only 102,000 farms, i.e., 3 per cent of the total number, turn out almost 32 per cent of the marketable produce. In addition to this upper stratum there are 483,000 farms which put out 22 per cent of all marketable agricultural output.

Since 1934 the U.S. Government has pursued a policy of subsidising farmers and maintaining high prices on agricultural goods. This policy has been motivated by the necessity of supporting the "family farms". Actually, however, all these subsidies went almost exclusively to the upper capitalist stratum of farmers. It was precisely the large capitalist farms that profited from the high prices on agricultural products maintained by the state. As for the bulk of the farmers, they continue to be ruined.* Data on the groups of population having a certain annual income either in the form of wages or as farm earnings, returns from small enterprises such as barber shops, laundries, repair shops, etc.,

* See Edward Higbee, *Farms and Farmers in an Urban Age*, New York, 1963, pp. 46, 47, 90, 123.

have already been given above. But in addition to this category there is a large part of the U.S. population which has *no* income at all, namely, the unemployed who do not as yet get unemployment relief and those who have already lost the right to such relief.

The clearest expression of the decay of American capitalism is its inability to provide work for the growing population. Galbraith does not deny the existence of unemployment and even foresees an increase in the number of unemployed, but he asserts that there are no unemployed in the U.S.A. for economic reasons. In point of fact, however, unemployment is increasing precisely by virtue of economic factors.

With the existing enterprises chronically underloaded the American industry is unable to employ the growing numbers of workers due to the increase in population. Hence the following entirely new phenomenon in the life of the U.S.A.: formerly unemployment affected the working class only during crises, whereas now unemployment also keeps on a high level during periods of economic booms. The situation is becoming aggravated as a result of mechanisation and automation of production.

A rise in labour productivity as a result of technical progress was characteristic of capitalism at all stages of its development. However, a relative reduction in expenditures on wages compared with those on material elements of production was usually accompanied by an increase in the absolute number of employed workers because of the increase in the scale of production. But today mechanisation and automation of production lead not only to structural changes in the composition of the working class,

but also to an absolute reduction in the numbers of employed workers. During the 1953-62 decade the number of workers in the manufacturing industry decreased from 14 million to 12.4 million. A similar process is under way in the extractive industry, the transport, etc.

In the last five years the number of totally unemployed has persisted, according to underestimated official data, on the level of 4 million and the number of part-time employed for economic reasons has been 1.2 million despite the fact that 1963-65 were marked by a cyclic boom.

Upon expiration of the unemployment relief period the families of the unemployed receive free dinners from charities or a little flour, maize, powdered milk and other products from state warehouses where the "surplus" of agricultural products bought up by the government is stored. This miserable pittance is given only to those who have no earnings and get no unemployment relief. Deprived of relief the families of the unemployed drag out a miserable existence. These people are essentially paupers.

At one time Galbraith was editor of *Fortune* which cannot be suspected of sympathy for communism or of exaggerating poverty in the U.S.A. According to this magazine, in 1961 the U.S.A. numbered 3 million such paupers receiving a pittance in flour, etc. In the state of West Virginia nearly 15 per cent of the entire population is dependent on such emergency aid. Citing these data *Fortune* admits that "for all its wealth and progress the U.S. has still too much distress and poverty in its midst".*

---

* *Fortune*, March 1961, p. 107.

The foregoing data come from bourgeois sources. All of them understate the extent of distress and poverty in the U.S.A., but even they serve to disprove the idyll pictured by Galbraith in his book *The Affluent Society*. If the minimum annual income of an American family amounted to Heller's budget, i.e., 6,000 dollars, the now underloaded U.S. production machinery would not suffice to cover the effective demand of the American population.

Thus even the latest official data disprove Galbraith's main propositions set forth in his book *The Affluent Society*. In reality there has been no equalisation of incomes and effacement of the class differences. The victories won by the American working class in their fight for wages and social insurance have accelerated the process of mechanisation and automation of production. In this way the monopolies are reducing the costs of production as regards wages. Hence the high level of unemployment precisely for economic reasons.

During the 1964 presidential elections Lyndon Johnson proposed a programme of "war on poverty". The distress and poverty turned out to be so great that today no one any longer speaks of the U.S.A. as an "affluent society". On the contrary, a new slogan has now been advanced, the slogan of a "great society" which does not as yet exist, but which will presumably be attained on the capitalist basis in the future. In the meantime there is a "war on poverty" about which so competent in tactical problems an organ as the *U.S. News & World Report* wrote: "Back in 1928, on August 11, Herbert Hoover, as Republican nominee for President, proclaimed: 'We shall soon with the help of God be

with respect to the trade unions which fight for wage increase during periods when the demand for goods lags behind the supply. According to him, the correlation of forces is balanced when collective agreements are signed. Hence Galbraith attaches particular importance to the system of collective agreements in which his theory of "countervailing power" is presumably realised and in which the "coexistence of the monopolies and trade unions" finds its concrete expression.

Galbraith notes with satisfaction that even the Taft-Hartley Law was unable to put an end to either the trade unions or the collective agreements. He considers the labour problem solved since the time of Franklin D. Roosevelt and at the present time, he believes, it is merely necessary to organise the still unorganised part of the workers, especially the white collar workers, in order to create a "countervailing power" here too.

In his treatment of the trade unions as a "countervailing power" Galbraith proceeds from an entirely incorrect premise that under modern capitalism the forces of the monopolies and those of the trade unions are equal and can therefore be balanced. In point of fact, however, these forces are far from equal since the means of production and the machinery of propaganda—the press, the radio and the TV—are owned by the monopolies and not by the workers. The most important thing is that the state has coalesced with the monopolies. It follows that the correlation of forces between the monopolies and the working class is such that they cannot be balanced within the framework of capitalism. Not peaceful coexistence of the monopolies and

the working class, but an intensification of the class struggle is the actual way of development.

Reality disproves the theory of peaceful coexistence of the working class and the monopolies. In the history of the American working-class movement there were never so many strikes and strikers as there have been since the end of World War II. And the more the state intervenes in the relations between labour and capital, the more political in character does the economic struggle of the working class become.

Turning to the question of the condition of farmers Galbraith abandons his concept of supporting the monopolies, and favours helping the small and middle owners. He does this exclusively for political reasons, i.e., for the purpose of achieving "social tranquility". He demands that the state should continue to support the agricultural prices, which, as is well known, benefits almost entirely the upper capitalist stratum of the farmers.

One of the central places in Galbraith's theory is occupied by the so-called "welfare state" by which he implies a system of social insurance and security and greater expenditures on education.

Galbraith foresees that the effect of the "law of diminishing importance of production of goods in the 'affluent society'," he formulated, will be increased unemployment which will further increase as a result of automation of production. That is why, to ensure "social tranquility" in case of a considerable increase in unemployment, he suggests a reduction in the work week. He writes: "Reduction in the work week

within sight of the day when poverty will be banished from this nation.' It now is 35 years later. President Lyndon Johnson is laying his plans for the 1964 presidential-election campaign. He too has opened a 'war on poverty'.... A reading of history shows that 'poverty' and its elimination for generations have been the rallying cry of politicians in both parties when seeking office."*

Hoover's promise to liquidate poverty was followed by the 1929-33 economic crisis, the greatest in the history of capitalism; the crisis was accompanied by tremendous unemployment and ruination of the farmers. History will show what will follow the present-day "war on poverty" in the U.S.A. It is clear, however, that the poverty and distress of the masses are an inalienable feature of capitalism and that poverty cannot be liquidated without liquidating capitalism.

5. CAPITALISM AND COMMUNISM

In his *Affluent Society* Galbraith attacks the outdated propositions which, according to him, have become standard, commonplace truisms and which he disdainfully calls "conventional wisdom". He regards as such "conventional wisdom" all of the political economy from Adam Smith to Keynes inclusive since, according to him, it reflects reality of the "epoch of poverty". All these theories, as Galbraith asserts, no longer correspond to the conditions of the new "affluent society". He regards as outdated truths of "conventional wisdom", for example, the striving to

---

* *U. S. News & World Report*, January 20, 1964, p. 36.

expand production and to consider its expansion as economic progress.

He considers the *laissez-faire* theory, which opposes state intervention in the economy, etc., the most vivid example of the outdated categories of "conventional wisdom". But as soon as it comes to the most advanced ideas, the ideas of communism, Galbraith himself becomes a slave of bourgeois conventional wisdom to which he is so greatly opposed. His theory aimed at preserving capitalism is itself conventional bourgeois wisdom.

Galbraith resolutely defends capitalism. As was shown above, his main argument in favour of state intervention for the purpose of fighting economic crises, inflation, etc., is the danger of communism. As regards communism he often reiterates the commonplace truisms which make up the essence of bourgeois "conventional wisdom".

The fear of communism impelled him in 1946, i.e., immediately after the end of World War II, to put forward a proposal to rehabilitate the economy not of the U.S. war allies, but of its foes, i.e., primarily West Germany. In the restoration of imperialist Germany he saw a means of preventing the westward penetration of communism. At that time he wrote: "... It is obvious that Germany remains a major counter—indeed the major counter—in the adjustment between East and West. A communist Germany would do much to insure a communist Europe. A Germany with a strong Western affiliation and orientation would be a deep bridgehead into Eastern Europe."*

* John K. Galbraith, *Recovery in Europe*, Washington, 1946, p. 8.

Thus Galbraith formulated, as early as 1946, the principles of U.S. foreign policy which is now pursued by both the Democrats and Republicans. Today, however, unlike the advocates of cold war, Galbraith understands that the "capitalism or communism" problem can no longer be solved from a "position of strength".

In our epoch communism is no longer an abstract idea. It is embodied in a group of socialist states with one-third of the world's population. The ideas of communism are penetrating ever more deeply into the minds of the working masses in the capitalist countries. And Galbraith is absolutely right in believing that the reason for this penetration is not "Soviet propaganda" at all.

The expatiations of bourgeois ideologists about the low living standards of the Soviet people and the technical backwardness of the Soviet Union are becoming a thing of the past. The socialist industrialisation and socialist reconstruction of agriculture, the high rates of economic development, the cultural revolution, the flourishing of science, the greatest technical discoveries and man's flights to outer space have all advanced the Soviet Union to the forefront in the development of human civilisation.

Speaking about the first Soviet earth satellites and spaceships Galbraith wrote in 1960 that "... these achievements added enormously to the Soviet prestige. They modified the worldwide tendency—a tendency by no means confined to the non-communist lands—to assume that such achievements come normally from the United States. A myth of American scientific omnipotence was dispelled. But scientific

achievement has long been a source of national prestige".*

The growing power of the socialist camp and the break-up of the colonial system of imperialism have served to deepen the general crisis of capitalism. The superiority of the socialist over the capitalist system is becoming increasingly more evident. "Capitalism or communism" has become the central problem of all mankind. Galbraith's main works deal with this problem. As far back as 1955, i.e., before the Soviet Union launched the first artificial earth satellite, Galbraith wrote that "the most ardent debate will be over a much more cosmic issue, that it will be concerned with the ultimate shape and form of the economic and political society the community is to have. Will it be capitalist, socialist or communist?"**

The first question that arises in connection with this central problem of world history is about the methods of solving this issue—by war or by peaceful coexistence. To Galbraith's credit it must be emphasised that already for a number of years he has been opposing war and advocating peaceful coexistence of the two systems.

Galbraith understands that since the U.S.A. has lost the monopoly on the atomic bomb the territory of the U.S.A. will no longer be secure against attack. Remaining an opponent of communism he resolutely rejects the settlement of the controversy between capitalism and communism by war. In his books he opposes the

---

* John K. Galbraith, *The Liberal Hour*, London, 1960, p. 26.

** John K. Galbraith, *Economics and the Art of Controversy*, p. 34.

futile arms race and the use of medicines which may affect the physician himself. He writes: "For myself I have little faith in the safety or security which derives from a never-ending arms race—from a competition to elaborate ever more agonising weapons and to counter those of the enemy. If the possibility exists, the risks of negotiation and settlement, however great these may be, would still seem to provide a better prospect for survival than reliance on weapons which we can only hope are too terrible to use."*

In the book already mentioned above—*The Liberal Hour*—published in 1960 Galbraith devotes the first chapter to "strategy of peaceful competition". In this chapter he emphasises the forced character of the transition to peaceful economic competition, because military competition has become senseless and futile. "The alternative to military competition, it is usually assumed, must be economic competition. The first having become too disagreeable, we turn to the next most unappetising thing."** By the unappetising thing for the U.S.A Galbraith implies economic competition of the two systems.

In economic competition there is, in the first place, the problem of rates of development. Galbraith admits that the Soviet Union's development rates are higher than those of the U.S.A. At the same time he considers such a criterion of economic competition as production of goods per capita unacceptable for the U.S.A. because the U.S.A. does not, according to him, need to increase production of food, clothing, etc. Hence his conclusion that "economic growth means

---

* John K. Galbraith, *The Affluent Society*, p. 353.
** John K. Galbraith, *The Liberal Hour*, p. 20.

one thing to the Soviets and something very different to us."*

If the U.S.A. will strive to expand production, as it is being done by the Soviet Union, the U.S.A., according to Galbraith, will only lose because in this competition it is faced with entirely different problems. Regardless of what he wrote in *American Capitalism* and in *The Affluent Society* Galbraith states: "Some will wish to suggest that there are many individuals and families with insufficient food, poor clothing, bad housing, or who are subject to other kinds of privation. This is true. And to provide decently for these people would require more production. But first of all these people require the income or the education, health, skills and abilities which enable them to earn the income with which to buy that production."**

Hence his "strategy of competition". Whereas the Soviet Union sets itself the task of catching up with and outstripping the U.S.A. in the production of goods per capita, the U.S.A. must strive to keep up with the Soviet Union in education, health and science, in which it has fallen behind. Galbraith writes: "The objectives of the competition with the Soviets—the things which score on the board—are most vividly illuminated by the Sputniks and the lunar probes. To contemplate these for a moment is to see the true nature of the competition."*** Further he notes correctly that it is a question not of individual scientific achievements, but of the "quality" of society itself. He writes that "it is not a purely

* John K. Galbraith, *The Liberal Hour*, p. 21.

** Ibid., p. 23.

*** Ibid., p. 26.

scientific contest. Anything which manifests the quality of the society is important in the competition as so defined. Any weakness is damaging. The society with the most points of vitality and strength and the fewest of weakness will command the most respect and support. It will, one assumes, have the better chance of surviving. This, one further assumes, is the object of the race."*

Having defined the aims of the U.S.A. in the competition of the two systems Galbraith then raises the question of the role of the capitalist state in this competition. And, of course, his point of view is that a *laissez-faire* policy, i.e., a policy of non-intervention of the state, must not be allowed. He writes: "Above all, we must not assume that because the Soviets have a planned society and we, in general, do not, our rules preclude a planned response to Soviet initiatives. There is a dangerous tendency to imagine that faith in a free society means faith that it will accomplish everything that is needful without effort or direction. . . . For, in fact, most of the things which effective competition requires will also require effective government leadership. There is no alternative."**

Thus tackling the central problem of our epoch Galbraith again argues the necessity not only for usual state intervention in economic life, but also for state leadership in the struggle of capitalism against communism in the form of competition.

At the same time he believes that without eliminating a number of vices modern capital-

* John K. Galbraith, *The Liberal Hour*, p. 27.
** Ibid., p. 28

ism will not be able to hold out in the competition with socialism. In his opinion a number of reforms are required to strengthen the capitalist system, which is possible only as a result of state intervention in the economy.

Galbraith regards the struggle against crises and inflation or their moderation for the purpose of ensuring stability of incomes as the main aim of state intervention. "Since depressions remain a major threat to economic security this latter is a consideration of central importance."*

In addition to this general problem the state is faced, according to Galbraith, with a number of special tasks of establishing, as he puts it, "a social balance". The most important in this respect are the question of labour in general and the problem of unemployment in particular. Galbraith writes: "A tolerable accommodation in the labour market is, without much doubt, the most important single requirement for tranquility in the modern community."**

To the Marxist theory of class struggle he opposes the theory of "coexistence" of the monopolies and trade unions. To this subject he devoted a special chapter—"A Question of Coexistence"—in his book *Economics and the Art of Controversy*. This question is given prominence also in his books *American Capitalism*, *The Affluent Society* and *The Liberal Hour*.

Galbraith regards the trade unions as a "countervailing power" with respect to the monopolies which strive to cut wages, and, contrariwise, the monopolies as a "countervailing power"

---

* John K. Galbraith, *The Affluent Society*, p. 296.

** John K. Galbraith, *Economics and the Art of Controversy*, p. 34.

and increases in vacation time require more workers for a given output."*

Galbraith regards a sliding unemployment relief scale as another means of achieving "social tranquility"; according to this scale, the unemployment relief during economic crises must approximate the wage level. With the same end in view he proposes to reduce the taxes for the low-paid categories of industrial and office workers and to pay pensions to a wider range of working people.

A scanty system of social insurance was introduced in the U.S.A. in 1935. The apologists of American capitalism announced the coming of a new era in the history of man; the capitalist state was allegedly transformed into a "welfare state" the signs of which were unemployment relief, old age insurance, aid to children, who have no means of subsistence, and to the blind and free elementary education. Under capitalism the system of social insurance and free elementary education is very limited. The aforementioned data on the distribution of the U.S. population according to annual incomes, the ruination of the farmers and the increase in unemployment are the best refutation of the "welfare state".

According to Galbraith, the "affluent society" is a further development of the "welfare state". But, as he himself discovers, in this society there is no "social balance". The "affluent society" cannot ensure adequate satisfaction of the social needs, i.e., there is a shortage of schools, housing, research institutes, hospitals, roads, playgrounds and public parks, on the one hand, and

* John K. Galbraith, *The Liberal Hour*, p. 31.

there are slums, towns with insufficient amenities, etc., on the other. Galbraith feels that it is impossible to solve these problems in a private-capitalist way. These vices must be eliminated and a "social balance" between the satisfaction of the commodity requirements and the aforesaid public needs must be established by the state.

The theory of "social balance" is a version of the theory of "countervailing power", in which the "countervailing power" is the state itself.

The establishment of a "social balance" requires considerable state expenditures. As a source of financing the state measures, including increased unemployment relief and expansion of social insurance, Galbraith proposes an increase in taxation and, what is the most important, curtailment of the military expenditures.

Galbraith writes: "In the mid-fifties defence expenditures were rather more than half of all the expenditures of the federal government and rather more than the total expenditures of states and localities combined. Were this sum to become available in any considerable part for the civilian services of governments in the years ahead, social balance could be quickly restored."*

Galbraith holds that the enormous military expenditures weaken the positions of the U.S.A. in the competition with the Soviet Union. He classes them with such negative aspects of American reality as neglect of the American towns, crime and unemployment. He opposes the war industry monopolies and their myrmidons who assert that a reduction in military expenditures will lead to economic catastrophe. Galbraith

---

* John K. Galbraith, *The Affluent Society*, p. 312.

believes that construction of roads, schools, hospitals and housing and organisation of public services and amenities may quite make up for the expenditures on arms and ensure a high level of employment. He feels that such expenditures will make it possible to establish the "social balance" the absence of which he considers dangerous to modern capitalism in its competition with communism.

The sum and substance of Galbraith's statements is that only reformed modern capitalism will be able to hold out in the competition with communism.

The theory of reformed capitalism is given in *The Affluent Society*. Data showing how far actual reality is from illusions were given above. This reality predetermines the outcome of the competition between communism and capitalism in favour of communism.

Up to this point the problem of competition was examined with regard to the relations between the imperialist and socialist states. However, the break-up of the colonial system of imperialism has extended the problem of competition. Now it has to do not only with the ways of development of the highly developed capitalist countries, but also of Asian, African and Latin American countries. To this urgent problem Galbraith has devoted a special book which we shall now consider.

6. PROBLEM OF DEVELOPING COUNTRIES

The countries of Asia, Africa and Latin America are inhabited by the absolute majority of mankind and so the problem of further development of the countries liberated from colonial op-

pression is one of the greatest problems of today. It is being solved under conditions of struggle of two social systems—capitalist and socialist—and it is a question which of the two ways of development—capitalist or non-capitalist—should be chosen.

It is perfectly clear that the forces of imperialism are trying to set these countries on the path of capitalist development, whereas the masses are struggling for a non-capitalist way.

Particular attention to the problem of the developing countries is being devoted in the U.S.A. The reason for it is that the U.S.A. is the leader of the capitalist world and is striving for world supremacy. There are, additionally, also considerations of an "applied" character, namely, the liquidation of the colonial monopoly of the European powers offers an opportunity for intensive penetration of American capital into these countries. U.S. finance capital needs theoretical counsel on these problems. Hence the appearance of a number of books on the problem of developing countries. These books include the works of W. Rostow, A. Berle, etc.*

Galbraith also wrote a special book on this subject. He examines this problem in close connection with his theory of state intervention in general and from the standpoint of competition of the two systems in particular. He writes: "The country entering currently on nationhood is faced, at least in principle, with the interesting problem of selecting an economic system. The choice, one from which the developing countries

* W. Rostow, *The Stages of Economic Growth*, Cambridge, 1960; A. Berle, *Latin America—Diplomacy and Reality*, New York, 1962.

of the eighteenth and nineteenth centuries were conveniently exempt, is between the economic, political and constitutional arrangements generally associated with the Western democracies, on the one hand, and the policy and economic organisation which avows its debt to Marx and the Russian revolution, on the other."*

Unlike the militant apologists of imperialism, Galbraith is trying soberly to appraise the possibilities and difficulties facing capitalism also in the developing countries. While defending capitalism he voices a number of apprehensions concerning the outcome of the struggle. He writes: "Were the advantage all on our side, we would have no reason to worry. But we do worry."**

Galbraith is trying to find the reasons for this worry and the means of overcoming it. With this end in view he reveals the main differences with Marxism in evaluating the reasons for the backwardness of the countries liberated from colonial oppression and the ways of overcoming this backwardness. He considers three differences to be decisive in this respect: first, in the diagnosis of the causes of poverty and the related remedy, second, in the way the development is organised, and, third, in the political and constitutional environment of this development. Of course, the main question is that of the causes of poverty.

Galbraith correctly writes that "in the Marxian view, poverty is caused principally by institutions which chain the country to its past—which hold it in colonial subjection, allow the exploitation and subjugation of the masses, deny the

---

* John K. Galbraith, *Economic Development*, Boston, 1964, p. 23.

** Ibid., p. 24.

people the reward of their labour, make government not the efficient servant of the many but the corrupt hand-maiden of the few, and which, in the aggregate, make any important progress impossible".* Now let us see how convincing Galbraith's objections are on this score.

He admits that in many parts of our planet colonial oppression is the most convincing explanation of poverty. But in this respect, too, he has some reservations. He writes that in Latin America colonialism is a matter of the distant past, but poverty persists. In other places—Australia, Canada and the United States—colonial rule did not exclude a considerable measure of contemporary prosperity. India, where British rule was the most comprehensive and lasted the longest time, is today measurably the most progressive part of Asia.

In the given case Galbraith treats colonialism only as political subjection and not as an economic system of exploitation of the colonial peoples. The example of Latin America shows that political independence alone is not enough for liberation from colonial exploitation. It also requires economic independence and this is precisely what Latin America now lacks since all the key positions in its economy are in the hands of American imperialism. Thus Latin America not only fails to disprove, but, on the contrary, confirms the Marxist interpretation of colonialism as a system not only of political, but also of economic subjugation of the peoples by foreign capital.

The example of Australia, Canada and the United States is still less convincing. These

* John K. Galbraith, *Economic Development*, pp. 25-26.

countries were inhabited by aborigines. The fate of these peoples after the conquest by the Europeans is well known. They were annihilated. The relative prosperity, of which Galbraith speaks, applied not to the aborigines, but to the European colonists who, in large measure, were also colonialists. As for India, suffice it to compare the national income per capita, the percentage of the illiterate, the mortality, the machine- and power-to-worker ratio in industry and in agriculture in India and England today, to get an idea of the "beneficial" influence of British rule in India.

Nor does Galbraith deny the fact that poverty is a result of class exploitation. He writes that this is confirmed by statistics and everyday life. "It is difficult to understand," he says, "why an Andean or Middle Eastern peasant should seek to enhance his income by irrigation, improved seed or acceptable livestock when he knows that anything in excess of subsistence will be appropriated by the landlord, tax collector, money-lender or merchant."* Thus Galbraith does not deny the Marxist proposition of the class causes of poverty of the peasants in the developing countries. He adds, however, that in India and Pakistan there are millions of small landowning peasants who are very poor but whose poverty cannot readily be related to the enrichment of any landlord, money-lender, tax collector, or other oppressor. Here it is a question of the peasants owning small parcels of land. The peasant economy based on small holdings does not know of any reproduction on an expanded scale and is in large measure natural. It is sub-

* John K. Galbraith, *Economic Development*, p. 17.

ject to frequent crop failure due to droughts or floods. It rests on primitive techniques and excessive labour of the peasant family. Numerous studies have shown that with the very first crop failure the parcel owner finds himself in the bondage of a money-lender or landlord to whom he applies for seeds, draught animals, etc. Nor is this peasant free from the tax collector. Thus a closer analysis of the situation always reveals those who are "visibly" responsible for the poverty also of this section of the peasantry.

Galbraith differs with Marxism on the causes of poverty of the peoples of the developing countries mainly in that, in addition to the "Marxist" causes, he believes there are also other causes. Galbraith distinguishes the following causes: 1) the people are poor because they prefer it that way; 2) the country is naturally poor; 3) poverty is caused by insufficient capital; 4) overpopulation is the cause of poverty; 5) poverty is caused by incompetent economic policy, and, lastly, 6) poverty is caused by ignorance."*

It is not difficult to see that in all these cases everything is turned upside down and the effects of poverty are set down as its causes. Here, Galbraith himself is compelled to make a number of reservations. For example, speaking of the poverty of certain countries due to a lack of natural resources he notes that there are, nevertheless, some countries, for instance, Switzerland, which are rich despite their lack of natural resources.

The question of the causes of poverty and want of the peoples of Asia, Africa and Latin America is very important. Galbraith is right

---

* John K. Galbraith, *Economic Development*, pp. 15-19.

when he writes that "so long as we have no diagnosis of the poverty of a country, we can surely have no cure".* He writes that, according to the Marxist theory, backwardness is associated "with colonialism, feudalism and repressive capitalism, all of which could be eliminated by revolution".** Galbraith is seeking other ways and therefore needs a multiplicity of causes of poverty. And this is just the way he puts it: "If we recognise a diversity of causes, we will take an eclectic view of remedies."*** But this eclecticism, like any eclecticism, is unfounded.

Galbraith holds that for the countries liberated from colonial oppression the capitalist way of development has allegedly two advantages over the non-capitalist way, but he, nevertheless, admits that the Marxist solution also has its advantages.

The advantage of the "Western" pattern is, according to Galbraith, that the "Western" world, the U.S.A. in the first place, is sufficiently rich and can extend greater "assistance" to the developing countries than the Soviet Union. According to Galbraith, foreign economic aid "eases one of the most painful problems of development"—the problem of lack of capital required for economic development. Actually this aid pursues exactly opposite aims. Hans Morgenthau, an American professor who cannot be suspected of communism, calls this foreign "aid" by its real name—bribery. He describes foreign aid as "performing the function of a bribe to the ruling

* John K. Galbraith, *Economic Development*, p. 20.
** Ibid., p. 26.
*** Ibid., p. 20.

group, to strengthen the economic and political *status quo*".*

Foreign "aid" in the hands of the U.S.A., Britain and the Common Market countries is an instrument of neo-colonialist policy. It does not in any way aim to promote the economic independence of Asian, African and Latin American countries, and the imperialist powers are therefore hindering construction of industrial enterprises whose production may replace corresponding foreign imports and thereby consolidate the economic independence of the developing countries. The refusal of imperialist countries to build the High Aswan Dam on the Nile and the refusal of the U.S.A. to build an iron and steel works in India may serve as examples. The sums received as foreign aid from imperialist powers are used mainly for construction of seaports, roads, airfields, etc., required for the penetration of foreign goods and foreign troops.

Such "aid" in the form of subsidies or loans in the end finds itself in the hands of the ruling classes and leads to their enrichment and not to liquidation of the poverty and want of the popular masses. It is characteristic that, by recommendation of a special commission under the chairmanship of General Clay, the U.S. Government passed a decision to administer "aid" not to state, but to private enterprises in the developing countries, i.e., precisely to those exploiters whom Galbraith considers responsible for the poverty of the people.

The "aid" of the imperialist powers is, in point of fact, also a means of aiding their own monop-

* Hans Morgenthau, "A Political Theory of Foreign Aid", *The American Political Science Review*, June 1963, p. 305.

olies. Subsidies and loans are granted on the condition that goods will be bought in the country which has administered the "aid". Consequently, the mechanism of the "aid" boils down to granting state loans and subsidies for goods to be purchased from foreign monopolies at high monopoly prices.

Thus, the first "advantage" of the capitalist way of development for the countries of Asia, Africa and Latin America proves very ephemeral. It leads to enrichment of foreign monopolies and strengthening of the exploiter classes in the developing countries, but not to liquidation of the poverty of the peoples.

The other "advantage" of the capitalist way of development consists allegedly in individual private landownership which, according to Galbraith, the Asian, African and Latin American peasants prefer to collective forms of ownership or collective forms of farming.

To realise this "advantage" the Asian, African and Latin American countries must allot land to their hundreds of millions of peasants. The question that immediately arises is where and how this land is to be obtained, since in these countries the land is owned by big landlords. The Marxist-Leninist answer to this question is to transfer the land without redemption to those who actually work on it. Contrary to this Galbraith writes: "Our emphasis is on capital, education, technical assistance and other instruments that promote change."*

The American recipes for solving the agrarian problem boil down to redeeming part of the land from the landlords and to granting credit to

---

* John K. Galbraith, *Economic Development*, p. 32.

peasants. Such a bourgeois reform means that the best land is usually kept by the landlords and the worst land is sold at such high prices which enslave the peasants. In addition to land it is necessary to have draught animals, machinery, farm buildings, etc. The indigent peasants of the developing countries are unable to redeem the land and repay the credits with interest. It stands to reason that the "advantages" of such a way hold out no attraction for the peasants. In the final analysis all these bourgeois reforms amount to creating an insignificant stratum of rich farms not instead of the landlords' estates, but side by side with them. This way has nothing in common with liquidating the poverty and want of the bulk of the peasants. The feudal institutions remain and brutal exploitation is retained.

Galbraith understands this. He writes: "Progress requires the radical elimination of retarding institutions. If elimination can be had from no other source, the Marxian alternative will sooner or later be tried."*

Galbraith holds that the system of individual private landownership proposed by capitalism is an advantage of the capitalist way of development. But the results of the development of capitalism in agriculture disprove this advantage. A vivid example of this is, in the first place, the U.S.A. itself.

As was shown above, the capitalist way of development leads to the ruination of the bulk of the farmers and concentration of landownership in the hands of the capitalist upper stratum which has replaced the feudal landlords. Today

* John K. Galbraith, *Economic Development*, p. 33.

the largest centres of poverty in the U.S.A. are primarily in the farming areas. So much for the second "advantage" of the Western way of development. It is now clear why the United Arab Republic, Algeria and other countries have chosen producer co-operatives in farming. In many countries of Asia, Africa and Latin America this way is historically more deeply rooted than individual private ownership. A communal system of land-tenure existed in these countries for many centuries and remnants of it can still be found in the East. The ideas of producer co-operatives are more attractive to the peasants there than the "advantages" of capitalist development.

Whatever the ways of further development may be, the main issue of the present day is abolition of the feudal relations and of the domination of foreign imperialism. This is the key to the settlement of all other issues. Without this no progressive development is possible. Galbraith has little faith in the possibility of carrying out capitalist reforms in these countries. He writes: "The Marxian promise can be decisive. That is because the things we offer are effective and attractive only after the retarding institutions are eliminated. In a country where land and other productive resources are held by and operated for the benefit of a slight minority, and where the apparatus of government serves principally to reinforce such privilege, aid is of no use. It will benefit not the many but the few. And the Western promise of independent proprietorship in agriculture is obviously nullified so long as land remains in the hands of the few. And personal liberty and constitutional government have little meaning in countries where gov-

ernment is of the privileged, by the corrupt, for the rich.

"We have no alternative, in short, but to meet the Marxian promise to be rid of archaic and retarding institutions. I doubt that we can organise revolution. But we can place our influence solidly on the side of reform and movements toward reform. We can close our ears to the pleas of vested interest.... We must give firm support to the small farmer.... We must not excuse dictatorship on grounds of anti-communism or convenience or the absence of visible alternatives."*

This stand taken by Galbraith is the more interesting since it is a result of his first-hand knowledge of the situation gained when he was U.S. Ambassador to India. He advocates this programme not because he sympathises with communism, but, on the contrary, because he wants to consolidate the positions of capitalism in the developing countries. But programme is one thing and reality is another.

Galbraith is one of the theoreticians of the Democratic Party now in power in the U.S.A. The practical foreign policy of the U.S.A. in Asia, Africa and Latin America is the exact opposite of the Galbraith's aforementioned programme. This can best be illustrated by the situation in South Vietnam. Here all the reactionary military dictatorships were planted by American imperialism. The revolutionary peasants are fighting for land, abolition of feudalism, and against corruption and plunder of the people. American imperialism is bringing down bombs, napalm and poison gases upon the heads of the revolutionary

---

* John K. Galbraith, *Economic Development*, p. 35.

peasants thereby defending the domination of outdated "institutions" and corrupt cliques. This is taking place not, as Galbraith writes, because of the "short-sightedness" of the U.S. Government, but because the interests of American imperialism, the interests of the American monopolies radically differ from the interests of the peoples of the developing countries. That is why Galbraith's argumentation about the advantages of the "Western" way of development cannot be squared against actual reality.

Galbraith rightly emphasises that the Asian, African and Latin American countries which have achieved political independence are at different stages of economic and political development. Proceeding from this correct premise Galbraith has constructed, however, an incorrect theory of the stages of further development of these countries. He writes: "At each stage along this continuum there is an appropriate policy for further advance. What is appropriate at one stage is wrong at another."*

In Galbraith's opinion, different means of development must be used, according to the stage of development. He writes: "In the early stages it undoubtedly involves the building of organs of public administration and the provision of an educated minority, a nucleus of people who can build the system of public administration and, for that matter, everything else. Then comes the task of popular enlightenment."**

In his book *Economic Development* Galbraith devotes a special chapter to the question of public education and its role in economic develop-

* John K. Galbraith, *Economic Development*, p. 46.
** Ibid.

ment. He writes about the priority of expenditures on education and considers them more urgent than expenditures on construction of roads, airfields and dams. According to Galbraith, this is indispensable to the industrial development of the new states. Galbraith holds that such countries as India and Pakistan are at a stage of development at which it is already possible to start industrial development. As an advocate of state intervention in economic life he favours the principle of state planning of economic development in India and Pakistan. But adhering to the theory of stages he believes that not all countries can develop according to state plans. He writes that "it is wrong to imagine that the kind of planning that is done by India or Pakistan is essential for nations in all stages of development. In earlier stages, it is neither necessary nor possible."*

This theory of stages conceals a cardinal question: must all peoples liberated from colonial oppression necessarily go consecutively through all stages of social development—tribal, feudal and capitalist?

The theory of stages to which Galbraith adheres answers this question in the affirmative. He does not say this point-blank, but it follows from his entire reasoning.

The Marxist-Leninist theory denies that in our epoch it is inevitable to go through all the successive stages of social development. The Kazakhs, who before the Great October Socialist Revolution were nomads and were in the primary stage of social development, came to socialism by-passing capitalism. The same thing applies to Uzbekistan where feudal relations

* John K. Galbraith *Economic Development*, p. 49.

analogous to those in India and Pakistan prevailed before the Revolution.

The historical experience of a number of nations has proved in practice the groundlessness of the theory of stages advocated by Galbraith. In our epoch the possibility of direct transition to the highest stages of social development is ensured by the existence of a highly developed world socialist system, its real aid to other countries, the existence in most of the Asian, African and Latin American countries of a modern proletariat, etc.

Let us assume that, as a result of victory over feudalism and foreign imperialism a country has embarked on the path of non-capitalist development. Will in this case development proceed in accordance with Galbraith's scheme, by stages, namely, first education, then road and seaport construction, then construction of industrial enterprises, etc.? Experience has shown that in this case too the stage theory of development is untenable. The problem of progressive development of the countries liberated from feudalism and foreign imperialism is a complex problem, its various parts—industrial development, liquidation of illiteracy, public education and training of qualified personnel—are tackled simultaneously. The Soviet Union accordingly administers many-sided aid. For example, the Soviet Union not only helped India to build an iron and steel mill, but simultaneously also trained Indian workers at Soviet enterprises. Soviet aid is manifested in construction not only of industrial enterprises, but also of educational establishments, hospitals, etc.

The theory of stages dooms the peoples of the Asian, African and Latin American countries to

economic backwardness and dependence on foreign imperialism. This is too protracted and hard a course of development. Today the peoples of these countries will not agree to wait for the liquidation of poverty and want until they have gone through the stages of feudalism and capitalism or the stage of "provision of an educated minority", then the stage of popular enlightenment and then industrial development, since the "provision of an educated minority" conceals preservation of the existing social relations even as universal elementary education and industrial development do not exclude capitalist relations.

It is, of course, impossible in one decade to be transformed into a highly industrial country and to build all the requisite mines, factories, electric power stations, roads, etc. It stands to reason that there must be a certain gradualness and succession in the solution of all the complex problems. Here a number of new questions arise, in the first place the question of the sources of accumulation and financing the entire process of transforming the country.

The countries which have embarked on the path of independent development are first of all faced with the fact of insufficient private capitalist accumulation, which is the result of foreign exploitation. The enormous profits reaped by foreign monopolies usually went to the parent states. Under such circumstances the accumulation of national capital was negligible. Without going into the reasons for it Galbraith simply states that "saving and capital accumulation are exceedingly painful in a poor country where the pressure of current need is very great".* Hence

* John K. Galbraith, *Economic Development*, p. 51.

he believes foreign aid to be the main source of financing economic development. But, as experience shows, foreign aid coming from imperialist countries becomes a form of neo-colonialism and instead of promoting hampers economic independence.

In countries characterised by poverty of the popular masses and insufficiency of private capitalist accumulation the state budget, nationalisation of the process of accumulation, becomes the chief source of independent economic development. This means that the state mobilises part of individual incomes by progressive income taxation. Under such circumstances the state becomes, as it were, the biggest capitalist in the country and spends on the country's development the collected savings of the nation. It follows that the largest enterprises become state property. The process of accumulation is accelerated through nationalisation of the already built foreign enterprises. The nationalisation of the Suez Canal in the U.A.R. may serve as an example since, as a result of it, the state began to receive the profits which formerly flowed abroad.

State ownership of the means of production becomes the principal means of development, of ensuring economic independence and overcoming backwardness. Foreign aid however substantial, plays, under the circumstances, but an auxiliary role. The advocates of the capitalist way of development, on the contrary, regard foreign aid as the main source of financing the economy. They oppose state ownership of the means of production and strive to make private ownership the basis of economic development.

In principle Galbraith does not oppose state ownership. Moreover, despite the recommendations of General Clay's commission not to help the state-owned sector of the economy in the developing countries, he defends state ownership and emphasises its important role in the economic development of capitalist Europe and the U.S.A. itself in the 19th century. He notes that today too in a number of branches of the economy—atomic power, electric power and scientific research—state ownership plays an important part even in the U.S.A. Defending state ownership against the attacks of the monopolies Galbraith at the same time does not recommend it as the chief instrument of transforming the developing countries. He suggests that they follow the example of the "West" and embark on the path of a "mixed economy", i.e., combine private and state ownership.

Galbraith attaches particular importance to state intervention in economic life. For countries which have achieved a certain stage of development he considers planning of the economy absolutely necessary. He writes that "planning" is "peculiarly necessary in the poor country".* He believes that planning is also possible in capitalist economy. He writes: "The theory of planning originated in close alliance with the theory of socialism—one of the reasons, more than incidentally, why the word 'planning' was so long regarded in non-socialist quarters with uneasiness." According to Galbraith, until very recently the "erroneous" view prevailed that "with public ownership there could be planning; without public ownership there could be no

* John K. Galbraith, *Economic Development*, p. 68.

effective planning".* By way of example he mentions the economy of modern U.S.A. where "state planning", as he says, is beginning to play an increasingly more important role despite the fact that the means of production are for the most part privately owned. This allegedly confirms the correctness of his following proposition: "We have public initiative in planning without public ownership. The two are no longer indissolubly allied."**

Here Galbraith confuses entirely different categories: socialist planning, the planning of state-monopoly capitalism and state planning in developing countries.

To be sure, at the highest and last stage of capitalism private monopolies coalesce with the state, and monopoly capitalism develops into state-monopoly capitalism which is characterised by some elements of planning. This planning is based on the enormous centralisation of capital and concentration of production in the hands of private monopolies which own all the decisive branches of the industry. It is perfectly clear that such domination of private monopolies in all of the economy has nothing in common with the economy of the developing countries in which feudal relations in agriculture based on primitive techniques play the decisive role.

The planning of state-monopoly capitalism fundamentally differs from socialist planning. This planning based on private ownership cannot overcome the anarchy of capitalist production, the crises and the class contradictions.

---

* John K. Galbraith, *Economic Development in Perspective*, Cambridge, 1962, pp. 32-33.

** Ibid., p. 34.

The aim of state-monopoly regulation is "planned" extraction of profit which enriches the bourgeoisie. The aim of socialist planning is to raise the material and cultural standards of all of society, satisfy the individual and social needs of the whole nation. The profits of socialist enterprises are used to expand production, build houses, educational establishments, hospitals and cultural institutions, to provide free general and special education and free medical service and to raise wages, in a word, to satisfy the requirements of the whole nation.

The planning of the economy of developing countries also differs from state-monopoly planning. It will succeed if it rests on state and co-operative ownership. In this case planning may be the decisive means of overcoming backwardness and of achieving economic independence. Under certain political conditions state ownership becomes the starting point of non-capitalist development.

Galbraith makes a number of correct observations concerning the character and direction of industrialisation of the developing countries. He criticises the ostentatious "modernisation" in the form of striking buildings and structures while the former social structure is retained. He writes that the industrialisation of developing countries must give major emphasis to "food, clothing, shelter, education, and medicines since these are the dominant items in the economy of the low-income family". He calls this criterion of development the "popular consumption criterion".* But the "Western" way of development

---

* John K. Galbraith, *Economic Development*, pp. 10, 11.

cannot, as has been shown, lead to the achievement of this aim. This way ensures neither liquidation of feudalism, nor economic independence from foreign imperialism, nor the quickest overcoming of economic and cultural backwardness; and, what is the most important, this way does not ensure liquidation of the poverty of the popular masses in the developing countries. Whether Galbraith admits it or not, that is precisely why the demographic problem in the developing countries so clearly comes to the fore in his work.

He writes about the "internal threat from increasing population" and that "the only remedy is the control of population".* Of course, if the rates of increase in the population exceed the rates of economic growth, the poverty engendered by the exploitation of the population by foreign capital, feudal lords and money-lenders increases. The increase in population is not a threat if the rates of economic growth exceed the rates of increase in the population. The "Western" way cannot ensure this in the developing countries.

The problem of developing countries is the most contradictory part of Galbraith's theory. On the one hand, he proposes a programme of reforms without which no progressive development of these countries is possible. On the other, he offers them the way of "stage" development and capitalism which consolidate their economic dependence on foreign imperialism and preclude the liquidation of poverty.

* * *

---

* John K. Galbraith, *Economic Development,* pp. 99, 101.

Galbraith emphasises his fidelity to capitalism in all his works and is very much afraid lest he may be considered a "Left". In his foreword to his book *American Capitalism. The Concept of Countervailing Power* he writes that "to many the notion of the 'Left' connotes some alignment, direct or vague, with communism and in any case there is an older tendency to associate it with political positions derived from Marx."*

For this reason Galbraith disowns the word "Left" and considers himself a liberal. Of course, Galbraith can in no way be called a "Left". Suffice it to recall his attitude to monopolies, co-operation with which underlies his theory. But at the same time it would be wrong to consider him one of the reactionary champions of monopoly capital. The latter criticise his theory of "social balance" and "countervailing power" in the relations between labour and capital. They are against state intervention, if it goes beyond state subsidies and tax rebates to the monopolies, state orders, state guarantees for capital export, etc.

Describing himself as a liberal Galbraith also deemed it necessary to dissociate himself from the European neo-liberals who, like the American reactionaries, oppose state intervention in the economy and state expenditures in the name of "social balance". Thus, for example, Wilhelm Röpke, one of the pillars of modern European neo-liberalism, holds that Galbraith's theory which calls for the state to play a more important role in redistributing the national income is

* John K. Galbraith, *American Capitalism. The Concept of Countervailing Power*, p. IX.

of a "pathologic nature" and is a theory of "fiscal socialism".*

Galbraith emphasises that, unlike the West European liberals, the American liberals are advocates of state intervention in the economy, which he regards only as a certain economic policy opposed to the policy of state non-intervention. This interpretation reveals the limitation and subjectivism of the American school of state intervention.

Modern state intervention in economic life is not a casual result of the policy of any particular group of the bourgeoisie, but an objective and law-governed phenomenon. Its origin was explained by Vladimir Lenin, the founder of the theory of state-monopoly capitalism. Concentration of production and concentration of capital engender monopoly which inevitably coalesces and interlaces with the state, monopoly capitalism thereby becoming state-monopoly capitalism. This is a law-governed process engendered by capitalism. The transformation of monopoly capitalism into state-monopoly capitalism is accelerated at times of war and economic crises.

As time goes on, the differences within the bourgeoisie on the necessity of state intervention smooth out more and more; Galbraith acknowledges this fact when he writes that there are no more differences between the Democrats and Republicans on this point. True, the different sections of the bourgeoisie believe that the state will intervene in their favour and not in favour of the other sections. Moreover, the petty bourgeoisie still harbours illusions that the state

---

* Wilhelm Röpke, *Die Nationalökonomie des "New Frontiers"*, Ordo, Vierzehnten Band., 1963, S. 101-02.

will intervene in order to defend it against the domination and oppression of the monopolies. But these are only illusions. State intervention leads to an increase in the power and oppression of the monopolies. At the same time the popular masses are increasingly rebuffing the reactionary endeavours of the monopolies.

During the epoch of general crisis of capitalism the instability of the capitalist system increases, the class struggle intensifies and the problem of replacing capitalism by socialism becomes more and more urgent. The main aim of state intervention today is therefore to preserve capitalism at all costs, to save it from destruction.

Galbraith's theory of state intervention is a bourgeois-liberal theory of state-monopoly capitalism. It treats state intervention not as an economic law at the highest and last stage of capitalism, but as a "wise" government policy. Moreover, it evaluates the wisdom of this policy by the extent and character of the state intervention.

Galbraith is capable of soberly appraising the correlation of forces between the camp of capitalism and the camp of socialism. He is well aware of the danger of solving the "capitalism or socialism" problem by force of arms. He therefore advocates peaceful coexistence and competition of the two systems.

Galbraith's theory is interesting in that it shows that any liberal reforms within the capitalist society today are a by-product not only of the class struggle within capitalist countries, but also of the class struggle on an international scale, assuming the form of a struggle of the two social systems—capitalism and socialism. It

is precisely as a result of this struggle and with the aim of consolidating the capitalist system that modern capitalist states are carrying out various social measures. Fear of revolution, the successes of the socialist countries and the working-class movement are forcing the bourgeoisie to make partial concessions with regard to wages, working conditions and social security. But with these reforms capitalism is not changing its nature and is becoming neither a "welfare state" nor an "affluent society". These reforms have certain limits. The first and foremost limit is preservation of the system of private ownership of the means of production and exploitation of wage labour. That is why, however modern capitalism may disguise itself, it is still capitalism. Only socialism really brings society to general welfare, only communism is a truly affluent society.

PART II

MONOPOLISTIC CORPORATION AND DEVELOPMENT OF CAPITALISM: ADOLF BERLE'S CONCEPTION

By A. Anikin

One hundred years ago the predominant form of a capitalist enterprise was a firm owned by one capitalist or several partners. Fifty years ago the decisive role in the leading countries was already played by large joint-stock companies—corporations, which had not as yet seized all branches of the economy, at times had few shareholders and were not always stable. The economy of modern capitalism is dominated by large corporations which exercise monopolistic control over production and the markets. This change is one of the most important aspects of the development of capitalism in the 20th century.

The predominance of a few dozen or a few hundred monopolistic corporations closely connected with the state causes changes not only in the economy, but also in the social structure of capitalist society. It is but natural that bourgeois economics strives to utilise these changes for the purpose of justifying capitalism and claiming that in the process of its evolution capitalism rids itself of its fundamental contra-

dictions, and the necessity for socialist transformation of society is thereby obviated.

The conception of the beneficent "transformation" of capitalism in connection with the new role of the monopolistic corporation has been most completely and consistently elaborated by Adolf A. Berle, an American economist. Like John K. Galbraith, Berle goes beyond the traditional academic science and in his works strives for a synthesis of political economy with sociology and politics; his works are publicistic and are intended for a comparatively wide range of readers. His vivid and lively style cannot be denied.*.

Berle's views have exerted a considerable influence on a number of American and foreign sociologists and economists. They are also utilised by the ideology—which has now become in large measure official—of "people's capitalism", "collective capitalism" and the welfare state.

Berle's ideas are being developed and popularised in the latterly published works of many authors. At the same time his books have en-

---

* Adolf A. Berle was born in 1895; he began his social, political and literary activities at the end of the 1920s. In 1932 Berle published in co-operation with Gardiner C. Means the book *The Modern Corporation and Private Property* which brought its authors wide fame. He has been a prominent figure in American political life and in socio-economic literature for 35 years. In the 1930s and 1940s he served in various government bodies; at one time he was Assistant Secretary of State and U.S. Ambassador to Brazil; he has become an expert on Latin American affairs. He has published three more books on social and economic problems: *The 20th Century Capitalist Revolution* (1954), *Power Without Property. A New Development in American Political Economy* (1959), and *The American Economic Republic* (1963).

gendered a polemic literature which is of interest both from the point of view of exposing the defects in Berle's conception and as other variants of the theory of the monopolistic corporation in modern capitalism.

In politics Berle takes an anti-Soviet and anti-communist stand. From book to book he keeps slipping more and more to the Right, to the point of the most unscrupulous lauding of American capitalism and vulgar anti-Soviet attacks. This is particularly characteristic of his last book *The American Economic Republic*. We do not here intend to engage in polemics with him in such a tone. We shall strive to examine the essence of his conception, especially the part concerning the role of the monopolistic corporation in modern capitalism, and to give it a well-reasoned evaluation. To do this, it is necessary, first of all, to show what joint-stock capital was in the past and what it is today.

1. JOINT-STOCK COMPANY (CORPORATION) IN THE PAST AND AT PRESENT

A joint-stock company is a historically developed form of a capitalist enterprise which makes it possible to associate the capital of many owners and to use it for large-scale production. This form of enterprise arises on the basis of credit relations. As it develops, the mass of individual shareholders is increasingly transformed into loan capitalists who are completely divorced from the real functioning of capital in the process of production and retain only the right to the returns on the capital in the form of dividends. The historical tendency consists in reducing the dividend to an interest on the loan,

which is usual under the given conditions. The transformation of the mass of small shareholders into creditors, who exert no influence on the affairs of the joint-stock company, and the reduction of their income to an interest on the loan means that a small group of the actual owners of the corporations utilises other people's capital accumulated by issuing shares for the purpose of making profit and establishing control over increasingly larger masses of public capital. The role of joint-stock companies in the economy of capitalist countries has increased with the increased concentration of production.

The spread of joint-stock companies was one of the preconditions for the formation of large monopolistic associations at the end of the 19th and the beginning of the 20th centuries. This form of enterprise also facilitates coalescence of industrial monopolies with banks since the main form taken by this coalescence is the issue and sale of the shares of industrial corporations and the mutual ownership of the shares. The form of management of joint-stock companies offers vast opportunities for the same persons to hold the managerial and other highest posts in the banking and industrial corporations.

Thus the formation of finance capital and the emergence of a finance oligarchy presupposes as a necessary (although not the only) condition a predominance of capitalist joint-stock enterprises.

The classics of bourgeois political economy did not understand the historical function of the joint-stock company in the development of capitalism and did not foresee big prospects for

it. For them the central figure was the individual industrial capitalist who for the most part used his own savings as capital, which could accumulate in the process of production.

Thus Adam Smith supposed that under usual conditions (without special state-granted privileges) joint-stock companies can develop only in some branches of business where, as he wrote, "all the operations are capable of being reduced ... to such a uniformity of method as admits of little or no variation".* He regarded only banking, insurance and construction and exploitation of canals and water-supply systems as the branches where development of the joint-stock form was possible.

At the time of Karl Marx joint-stock companies were already well developed. The construction of railways launched during the 1830s-40s served as a particular impetus to this development. But Marx's fundamentally different views of the functions of the joint-stock company are due not only to this. Marx was the first to reveal the historical role and prospects of this form of enterprise. On the one hand, he emphasised, the joint-stock form which is a result of the development of the productive forces itself promotes their tremendous growth. "The world would still be without railways if it had to wait until accumulation had got a few individual capitals far enough to adequate for the construction of a railway. Centralisation, on the contrary, accomplished this in the twinkling of an eye, by means of joint-stock companies."**

---

* Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, L., 1904, Vol. II, p. 246.

** Karl Marx, *Capital*, Vol. I, p. 628.

On the other hand, a joint-stock company creates a concentration of the means of production and labour power which is social in form, but retains private appropriation of the results of production. It aggravates the main contradiction of capitalism since the private character of appropriation becomes particularly clear and assumes the features of expropriation of the overwhelming majority of society in favour of few "knights of profit". The joint-stock form of enterprise is an important element in the preparation of the material conditions for transition to a new social system—socialism. Marx wrote that joint-stock companies are the result of the ultimate development of capitalist production, "a necessary ... transitional phase towards the reconversion of capital into the property of producers, although no longer as the private property of the individual producers, but rather as the property of associated producers, as outright social property".*

Publishing volume III of *Capital* in 1894 Engels noted by that time that "new forms of industrial enterprise, which are the second and third degrees of the joint-stock company, have developed".** He implied the monopolistic unions which had already appeared at that time in the form of trusts and cartels that united the existing joint-stock companies, the latter retaining a certain independence.

The concentration of production, the formation of large monopolies and their coalescence with the banks and, lastly, their union with the bourgeois state are all concrete expressions of the process which, as Marx foresaw it, prepares

* Karl Marx, *Capital*, Vol. III, p. 437.
** Ibid.

the material prerequisites for the liquidation of capitalism in its own bosom. Of itself, however, this process not only fails to introduce any elements of socialism, but, on the contrary, carries the characteristic features and contradictions of capitalism to the extreme. A growing antagonism between the interests of a small group of finance magnates, who control enormous masses of social capital, and the interests of all the rest of society is on hand.

Berle and with him other bourgeois economists assert that the modern large corporation has been transformed into a "social institution". A monopolistic corporation is a social institution, but only in a very definite sense. Large enterprises use the labour of many thousands of industrial and office workers and their products are directly or indirectly consumed by millions of people. These are no longer the old private enterprises where the owner and a dozen workers produced goods for a small local market. However, production is still carried on for private gain, in the interests of a small group of the de facto owners. Thus production has become social, but the ownership of the means of production and, consequently, the appropriation of its results have remained private. This is the main contradiction of modern capitalism. The domination of a handful of monopolistic corporations in the economy leads to the necessity of transforming capital, as Marx puts it, into direct social property. But this transformation is possible only as a result of a socialist revolution.

Here is precisely where the dividing line runs between the Marxist views of the role played by the monopolistic corporation in modern capitalism and the various bourgeois conceptions of

"transformation" of capitalism. These conceptions regard the modern monopolistic corporation as a most important instrument of transformation of capitalism, its change to some new social system allegedly devoid of the defects of "old" capitalism.

These conceptions come down to the following propositions. The corporation has changed its nature, namely, from an instrument of private ownership and private appropriation of the fruits of social labour it has become transformed into an institution which is in the service of all of society. The state has presumably more than ever become a supra-class power which guarantees that the large corporations fulfil their social functions. Bourgeois democracy is the political power that ensures progress. In addition to the elective system of government it creates other social forces which also restrain the power of the monopolies and direct it into the "proper" channel. The trade unions usually top the list of these forces. Thus, according to bourgeois authors, the monopolistic corporation, while offering the advantages of large-scale production, at the same time becomes a socially beneficent force. This complex of conceptions (with different variants and complications) is characteristic of modern bourgeois political economy and sociology. Berle, too, has made his contribution to it.

Berle and the other authors who describe this "transformation" base their conceptions on a number of new phenomena in the economic and social development of capitalism, interpreting them to the best advantage. They prefer to relinquish certain old dogmas and traditional

concepts and pose as realists in evaluating social phenomena.

In particular these authors do not deny, nor try to underestimate the facts of concentration of economic power and predominance of large monopolistic corporations in the economy of the U.S.A. and other countries of developed capitalism. Moreover, it is precisely on this that they are building their conceptions when they assert that the large corporation has ceased to be a private capitalist institution.

The indissoluble ties between the social phenomena of an economic and political character are more evident in our time than ever before. Any practical suggestions of the economists, if the latter want to keep their feet on the ground, must necessarily take into account political factors (international situation, correlation of forces of the social and political groups within the country, etc.). Acknowledging these ties and utilising them in their conceptions the theoreticians of "transformation" claim that they are explaining modern capitalism more fully and many-sidedly than do the purely academic economic models.

They take it for granted that the modern bourgeois state expresses the interests of all classes of society, although in reality it acts under the control and in the interests of monopoly capital. Taking the greatly increased economic role of the state into consideration these authors charge it with the most important functions of further "improving" capitalism.

Certain changes in the system of managing large corporations have occurred in the course of development of monopoly capitalism. A solid and socially important stratum of corporate

bureaucracy, including the top-level employees—professional administrators—has formed. Their role has been growing increasingly more important also as a result of the coalescence of this stratum with the higher state and military bureaucracy. This objective fact has served as the basis for the conception of managerism, according to which the power of large corporations is in the hands of disinterested managers who do not depend on the groups of the finance oligarchy. Berle is one of the prominent proponents of this conception.

To substantiate his views, he also tries to utilise the changes in the structure and forms of social accumulation and in the financing of the large corporations which have developed since the end of World War II. During the last 15-20 years the large corporations have been financed in greater measure than before by the internal accumulation of money capital and by the small savings accumulated by insurance companies and savings banks. A less important role is now played in the capital market by the issue of stocks and bonds. This, he claims, changes the very character of accumulation transforming the latter from private-capitalist to "quasi-public" accumulation (expression of John Strachey, British Labour theoretician).

One of the consequences of the aforementioned changes is a certain diminution in the role of the banks in financing large corporations, which particularly applies to investment banking houses engaging in the issue of shares. Along certain other lines the influence of loan capital monopolists has in no way decreased. But as the role of public issue of securities has decreased, the importance of the banks for finan-

cing large corporations has also diminished. However, this fact is used by bourgeois economists to deny any and all dependence of the large corporations on banks and the existence of financial groups.

Certain changes have also occurred in the operations of commercial banks. Whereas, say, in 1900 as much as 80 per cent of the bank financing in the U.S.A. (in the form of loans and purchase of securities by banks) fell on capitalist enterprises and only 10 per cent remained for the state and the population ("personal sector") each, in 1960 these shares were respectively about 35, 40 and 25 per cent.* The financing of the state and the population (for the most part mortgages on real estate and commercial credit) has sharply increased owing to the relative decrease in the financing of industry. Moreover, the role of the deposits of the population in the bank resources has also increased. In the conceptions of "transformation" these facts are interpreted in two ways. First, their advocates declare a democratisation of the banks which are allegedly playing the role of mere "servants of society". Secondly, they suggest that the modern banking system is most fitting for state regulation of credit, which is presumably equivalent to regulation of the market conditions and, consequently, to overcoming economic crises.

Actually the meaning and results of these changes are entirely different. These changes

---

* For the calculations see A. Anikin's book *Kreditnaya sistema sovremennogo kapitalizma. Issledovaniye na materialakh SShA* (*The Credit System of Modern Capitalism. A Study on U.S. Materials*), Moscow, Nauka, 1964, pp. 166-69.

mean that finance capital is seizing an ever growing portion of commercial credit. The increase in financing the state reflects primarily an inflationary increase in the national debt in connection with the growth of militarism. As for the possibilities of regulating banking credit and, especially, influencing the economy through credit, this question is still the subject of heated discussions among economists. The empirical data in this field are, to say the least, contradictory.

During the last 10-15 years the number of shareholders of large corporations has considerably increased in all developed capitalist countries, especially in the U.S.A. The role of investment companies, which serve as intermediaries between the mass of small shareholders and the industrial giants, has become markedly enhanced. According to the estimates of the New York Stock Exchange, in 1962 the shareholders in the U.S.A. numbered about 17 million. During the subsequent years this number continued to grow. It is possible that these figures somewhat exceed the actual number of shareholders since some persons own shares of several companies, or for other reasons, but the very fact that the number of shareholders has considerably increased cannot be doubted.

On this basis the general public in the U.S.A. is presented with the idea of "democratisation of capital", i.e., that the diffusion of formal shareholding presumably democratises the management of large corporations and enables any American to play a certain role in this management. This idea occupies a prominent place in the most primitive variants of the ideology of "people's capitalism".

The idea of "democratisation of capital" also has another connotation. It is sometimes advanced by economists and sociologists who criticise some aspects of the present situation. Socially their position may sometimes reflect the interests of the petty and middle bourgeoisie, comparatively broad sections of investors, etc. At times these authors very vividly describe the impotence of the mass of shareholders of the large corporations and the omnipotence of the oligarchic leadership. At the same time they assert that through appropriate state intervention and a struggle of the small shareholders for their rights true "shareholder democracy" may be achieved within the framework of monopoly capitalism. This illusion, although ignoring the objective laws of development of capitalism, is quite widespread. It is nurtured by the numerous laws of the 1930s which were aimed against some of the most flagrant methods of deception and plunder of the small shareholders. But the measures themselves were very limited, for they involved only a struggle in the interests of all the monopoly bourgeoisie against "speculative excesses" which benefited certain groups of this bourgeoisie, while damaging American monopoly capital as a whole.

In bourgeois sociology and law the system of managing a joint-stock company is traditionally considered by analogy with the bourgeois-democratic state system: the shareholders are analogous to the electors, the board of directors is analogous to parliament, the executives are analogous to the government. In real life a bourgeois parliament and government do not in any way express the will of the overwhelming

majortiy of the electors despite the fact that each elector has one vote. What is there to be said about a joint-stock company where not persons but shares vote? One financial magnate or bank may have more votes than scores or even hundreds of thousands of small shareholders.

Some bourgeois economists assert that the small shareholders may unite and defend their interests by utilising the system of voting by proxy and entrusting their votes to their representative. The 1930 laws on joint-stock companies adopted a number of legal norms which regulated the system of entrusting the proxy and were formally aimed at defending the interests of the small shareholders. But actually, as was to be expected, this system has been used by the ruling clique of monopoly capitalists in its own interests. Taking advantage of the passivity and ignorance of the mass of small shareholders representatives of this clique, acting through the board, collect the proxies from the shareholders and vote on their behalf, thereby carrying into effect any decision that suits this clique. In all of the history of the stock companies in the U.S.A. it is hard to find even a single case where the small shareholders, actually united, entrusted their votes to their true representatives and defeated the oligarchic ruling clique. The small shareholders are merely used by various groups of the oligarchy in their struggle for control of the corporation. In such cases the small shareholders are sent proxy blanks by both competing groups, pressure is brought to bear on them, they are given a psychological going-over and sometimes are bribed. But as soon as one of the groups wins

and seizes power it forgets the promises which it showered on the small shareholders. It may even legally exact from the seized corporation its expenses made in the struggle for control. Thus, for example, after seizing control of the New York Central Railroad Company in 1954, Young's group received from it close to 1.3 million dollars to defray its expenses.*

And yet the hope is not infrequently expressed that the rights of the small shareholders may be restored by means of a state-regulated system of voting by proxy. Such hope, for example, is expressed in the book of two professors of law—Emerson and Latcham—under the characteristic title of *Shareholder Democracy*. As they put it, by "shareholder democracy" they imply "restoration of some measure of control to the stockholder-owners of our modern corporations".** However, the usefulness of this book is limited merely to a detailed examination of concrete cases of struggle for control of corporations with the aid of the proxy system.

Evaluating in his review the suggestions of the authors for improving the proxy system Gower, a British lawyer, rightfully remarks: "But the extent to which this represents 'stockholder democracy' can be exaggerated. Rarely is it a victory for the average small investor or the assumption of control by him and his fellows. Normally it is a battle between two rival financial powers, neither chosen in any real sense by the average stockholder and both equally

---

* *Commercial and Financial Chronicle*, April 13, 1961, p. 20.

** Frank D. Emerson and Franklin C. Latcham, *Shareholder Democracy: A Broader Outlook for Corporations*, Cleveland, 1954, p. 8.

unconcerned with him except while the proxy battle rages. ... Democracy is admittedly a word meaning different things to different people, but should it include this?"* It is characteristic, Gower notes, that the authors are unable to adhere to the "old-fashioned" point of view of "shareholder democracy" and sneak in Berle's views.

Berle's stand on this question differs both from the primitive variants of the conception of "people's capitalism through shareholder democracy" and from the ungrounded illusions about increasing the real rights of the shareholders. To begin with, he holds that the diffusion of shares brings to nought the rights *of all* shareholders—large and small, owners of a hundred thousand or only a dozen shares—and enhances the role of hired managers. Secondly, in his opinion, this is not an evil, but rather a blessing, and all talk about restoring "shareholder democracy" is so much twaddle; the managers who enjoy absolute authority place the corporations in the service of society, which cannot be expected from the shareholders.

But, as we shall try to show below, this conception which affects "realism" also wrongly interprets the purport of the processes operating in the monopolistic corporation and the stock company. The modern corporation and credit systems enable the largest shareholders to accumulate under their control on an unprecedented scale the masses of capital of the petty and middle bourgeoisie and the savings—transformed into capital—of all sections of the population.

---

* *Harvard Law Review*, March 1955, p. 924.

2. THE CRISIS 1930s: WHITHER CORPORATION

Before World War I and, in some measure, in the 1920s American bourgeois economics devoted comparatively little attention to the economic and social problems of the monopolistic corporation. Although free competition had long since receded into the past and most markets were characterised by domination of large monopolies, the reputable university professors continued, following John Stuart Mill and Alfred Marshall, to proceed in their theories from a predominance of small capitalists and "perfect" competition. The interest in the problem of the monopolistic corporation was characteristic mainly of the institutionalist trend in economics. A good deal of attention was devoted to it by Thorstein Veblen, a representative of American institutionalism.

An observant and caustic critic of the vices of capitalism Veblen died in poverty and solitude in 1929 when young liberally-minded Means and Berle were beginning their joint work. Their book shows palpable traces of Veblen's influence. The critical attitude of the authors was also fostered by the deepening of the economic crisis. The book came out in 1932 when the American economy hit the very bottom of the "great depression".

Analysing the modern corporation Veblen essentially formulated the "concept of the separation of ownership and control in the modern corporation in a way that made Berle and Means' later empirical proof relatively simple."* It is

* See Ben B. Seligman, *Main Currents in Modern Economics. Economic Thought Since 1870*, New York, 1963, p. 150.

quite probable that Veblen who knew Marx's works very well (which, incidentally, cannot be said of Berle) used Marx's well-known idea of separation of capital as a function (i.e., actual utilisation of capital in production) from capital as property (i.e., capital frozen in the form of securities-titles to property). However, already Veblen drew entirely different conclusions from this thesis than did Marx, while Berle and Means began to use this idea for apologetic purposes.

Following the traditions and method of Veblen, Berle and Means, in their convincing analysis based on extensive factual material, clearly showed the various methods of expropriation of the small shareholders of a large corporation in favour of the controlling clique. For the first time in American literature they thoroughly described the concentration of capital in the U.S.A. and the economic power of few giant corporations (they examined 200 of the largest non-financial corporations). The authors showed the methods of domination of the controlling clique and the total impotence of the mass of small shareholders, the formal owners. At that time Berle and Means used sufficiently strong expressions: "The concentration of economic power separated from ownership has, in fact, created economic empires, and has delivered these empires into the hands of a new form of absolutism, relegating 'owners' to the position of those who supply the means whereby the new princes may exercise their power."*

Analysing the high rates of concentration in industry characteristic of the 1920s they even

---

* Adolf A. Berle, Jr. and Gardiner C. Means, *The Modern Corporation and Private Property*, New York, 1937, p. 124.

entertained the illusion of a rapid approach to complete liquidation of small and middle business in the U.S.A. They predicted that within 20-30 years the giant corporations were essentially to become the only form of capitalist enterprise.

This, as is well known, has not happened. Although the share of production, marketing and profits of the 200 or 500 largest American corporations is gradually increasing (Berle writes about this in his last book), the small and middle firms have not disappeared at all. In many branches and in the country as a whole their number has even noticeably increased since the end of the war.

Sometimes bourgeois economists dealing with problems of concentration and monopoly try to use this fact as an argument against Marxism. They ascribe to Marxism the proposition that concentration must always increase steadfastly and at growing rates. Actually, however, Marxism does not assert anything of the sort. Lenin showed the fallacy of the conceptions of pure imperialism (absolute monopoly without competition and without small-scale production) and ultra-imperialism.

The increased concentration, i.e., development of powerful monopolies, does not preclude the existence of a non-monopolised sphere of small and middle enterprise. The gist of the matter is not merely in the share of production or capital controlled by the largest corporations, but in that the latter directly and indirectly subordinate the formally independent firms. The concentration of production and capital engenders monopoly, but is not in itself equivalent to the latter. Concentration may usually be measured

statistically; monopoly includes factors which it is often impossible to measure. In some industries concentration reached a high level already in the beginning of the 20th century and since then the number of large companies dividing the market has somewhat increased (oil, aluminium and sugar-refining industries), but the monopolistic structure of these branches has only grown stronger.

The statistical indices of concentration cannot take into account the increased dependence of the mass of small enterprises on the industrial giants. Herrymon Maurer, the author of one of the books which praises big business, writes with a note of wild enthusiasm: "No one has yet measured the actual economic weight of the large corporation in the U.S., and it may be that its weight is beyond measure."* As a matter of fact, how can the power of General Motors be measured if it is known that in addition to the 550,000 workers in its plants 400,000 people work for it in small firms bringing its output to the consumers and 21,000 firms supply it with various raw materials and semi-finished products?

The analysis of concentration (including the aforementioned primitive aspects of its interpretation) and the descriptions of the financial manipulations of the "captains of industry" may be called elements of petty-bourgeois criticism of the monopolies. Such elements are characteristic of Berle and Means' book, as they were characteristic of Veblen and a number of other

---

* Herrymon Maurer, *Great Enterprise. Growth and Behavior of the Big Corporation*, New York, 1955, p. 6.

institutionalists.* During the Roosevelt "New Deal" period the criticism of monopolies often assumed even sharper forms. This found its expression particularly in *The Structure of American Economy*, a report prepared under the direction of Gardiner C. Means for the National Resources Committee in 1939. In this work, for example, Means took eight of the largest financial groups of the U.S.A. and established with a certain degree of precision the corporations forming part of these groups.** To elucidate the connections between the corporations and the forms of control over them, Means and his associates in large measure used the methods developed in the book Means had written together with Berle.

However, in their book, as well as in the subsequent works and practical activities (especially of Berle), there is one more aspect. The severe crisis required some "constructive" ideas substantiating the utilisation of the large corporations and the possibilities inherent in them to overcome the difficulties of American capitalism. It was necessary to seek new prospects for the "corporate system" since the ruling classes did not intend to give it up. Such were the objective factors which called to life the theory of the "corporate revolution" suggested by Berle

---

* This aspect of Berle and Means' work is analysed in I. G. Blyumin's book *Ocherki sovremennoi burzhuaznoi politicheskoi ekonomii SShA* (*Outlines of Modern Bourgeois Political Economy in the U.S.A.*), Moscow, Gospolitizdat, 1956, pp. 200-01.

** See *The Structure of the American Economy*, Part 1, "Basic Characteristics," *A Report Prepared by the Industrial Section under the Direction of Gardiner C. Means*, June 1939, National Resources Committee, Washington, 1940, p. 161.

and Means in their book. This theory is essentially a development and generalisation of the conception of managerism.

Berle and Means declared that many large corporations (to be exact, their share was 58 per cent of the total assets of the 200 giants) are under the control of their own managers and not of any groups of large shareholders or banks. They held that in the future the tendency towards the concentration of power in the hands of the managers had to increase.

How far this appraisal made by Berle and Means can be trusted is apparent from the fact that a detailed study of the control of 200 of the largest corporations conducted for the Temporary National Economic Committee at the end of the 1930s revealed centres of control of 140 corporations, which were outside these corporations. The authors also hesitated to assert that all the other 60 corporations were controlled by managers. In a number of cases the control was in the hands of banks.*

Berle and Means regarded the owners as a single mass and did not distinguish the socially different strata, i.e., the big shareholders, who usually exert an influence on the management of the corporation, and the mass of small shareholders, who have absolutely no such possibility. They opposed control to ownership, considering that practically and, especially in prospect, managers exercised the control.

Actually control cannot thus be opposed to ownership and managers cannot be opposed to

---

* See *The Distribution of Ownership in the 200 Largest Non-financial Corporations*, TNEC, Monograph No. 29, Washington, 1940, pp. 103-04.

the shareholders. The role of managers consists primarily in that they are confidential agents, representatives of the finance oligarchy which holds in its hands both the legal ownership in the form of large blocks of shares and the actual control.

According to their social status and, especially, to the level of their income, the managers of large corporations may be very close to the circle of finance capitalists; not infrequently they enter this circle and reinforce it. But despite the enhancement of the role of hired managers and their approximation to the ruling clique of finance capitalists the social line between them remains very real. It shows particularly clearly in conflict between the big capitalists who actually have the control in their hands and the management. The annals of business contain innumerable cases when the magnate-stockholders dismissed undesirable managers and replaced them by others. On the other hand, it is practically impossible to find an example of a successful struggle waged by managers against big businessmen resulting in exclusion of finance capitalists from control of the corporations.*

Proceeding from the wrong conception of managers as controlling groups opposed to stockholder-owners, Berle and Means asserted that the actions of managers are increasingly

---

* The problem of relations between the large stockholder-owners and the hired managers in the U.S.A. was thoroughly studied in the work of the Soviet economist S. M. Menshikov *Millionery i menedzhery. Sovremennaya struktura finansovoi oligarkhii SShA* (*Millionaires and Managers. Modern Structure of the U.S. Finance Oligarchy*), Moscow, 1965, Chapter III.

guided by the interests of the corporation as a definite social institution, where the race for profits plays allegedly secondary role.

The omnipotence of managers has its dangerous aspects, but, Berle and Means declared, there is a possibility of making them serve society. Then the advantages of effective management of production by qualified managers will be preserved and at the same time no "corporate oligarchy" will develop. At that time Berle and Means wrote: "The control groups ... have placed the community in a position to demand that the modern corporation serve not alone the owners or the control, but all society." The control groups of managers will then allegedly develop into a "purely neutral technocracy" which will equally serve the interests of all social groups. It will distribute the incomes "on the basis of public policy rather than private cupidity".*

In this book Berle expressed his subsequently favourite idea that the leaders of large corporations had "outgrown" the bounds of private property, for which reason the motives and principles of their activities essentially differ from the motives and principles of the former capitalists. Moreover, they allegedly closely resemble the leaders of the socialist industry in the Soviet Union. Berle asserts that "a corporate board of directors and a communist committee of commissars ... so nearly meet in a common contention".** Berle knew about Soviet commissars then and knows about them now

---

* Adolf A. Berle, Jr. and Gardiner C. Means, *The Modern Corporation and Private Property*, p. 356.

** Ibid., p. 278.

only by hearsay. As in many other cases he does not take the trouble of producing any proofs, essentially demanding that his fantasy be taken for granted.

Berle and Means' book is of a twofold character. On the one hand, it gave a certain economic (and juridical) analysis of the large corporation and convincingly showed the omnipotence of the handful of monopolies and people who control these monopolies. This constituted a certain progressive significance of the book since it reflected the anti-monopolistic moods of the American intelligentsia, including those who worked in the apparatus of Roosevelt's administration. At the same time it should be noted that Berle's ideas (even after the subsequent decades of his evolution to the Right) are not acceptable to all groups of the U.S. ruling class. The thing is that Berle not only acknowledges the enormous monopolistic power of the large corporations and the lack of any control over it by the shareholders, but also builds his conception precisely on this, and such "frankness" does not suit everybody.

On the other hand, this book clearly expresses a central apologetic thesis, namely, that the large monopolies are a progressive social force and that the corporations are being transformed into a social institution, while the managers are becoming agents of society.

3. THE CORPORATION AS A SOCIAL INSTITUTION

Bourgeois economists consider that their main task is to prove that modern monopoly capitalism is as much the best social system

today as capitalism of free competition was to Adam Smith. They are forced to admit that the capitalist system is imperfect and that it experiences dangerous shocks. At the same time bourgeois ideologists assert that new forces and factors continuously emerge and make capitalism acceptable. They are trying to picture the monopolistic structure of capitalist economy precisely as such a factor. They increasingly resort to the proposition that monopolies intensify the dynamic character of the capitalist economy and foster technical progress.

Edward Chamberlin's and J. M. Clark's theories of monopolistic or "workable competition" enjoy considerable popularity; these theories in essence assert that oligopoly, i.e., predominance of a small number of firms (which are inevitably large), is the best economic system which combines the advantages of competition and the economic efficiency of large-scale production. Particularly fashionable is Galbraith's theory of "countervailing power", which is based entirely on the prerequisite of high concentration of production and capital and a monopolistic structure of the economy.* In 1959 these economists were named by George W. Stocking, President of the American Economic Association, as the ones who had made the most important contribution to bourgeois economics. Characteristic also is the title under which Stocking's article was published, namely, "Institutional Factors in Economic Thinking". This is a sort of new credo of institutionalism. Stocking said: "Just as the individual and individual-

* See Part I of this book.

ism dominated eighteenth century society, so the organisation has come to dominate twentieth century society.... At the centre of this organisational revolution is the business corporation".* He declared the monopolistic corporation and its role in the modern economy the most important object of study and set himself the task of proving that the monopolistic structure of modern capitalism is capable of ensuring "public welfare".

According to Stocking, the theoretical elaboration of the problem of the monopolistic corporation still lags behind the needs of the time (i.e., the needs of big capital). But in American economic literature monopolies are being increasingly praised. The petty-bourgeois criticism of the monopolies in the 1930s was subsequently followed by two decades of something like rehabilitation of big business. Extensive literature has appeared and has in different ways rehashed the following thesis: economic blessings are given by large-scale production; large-scale production is indissolubly connected with large corporations; the nature of the large corporation has changed to such an extent that it can ensure not only economic blessings, but also social progress and justice. The monopolistic private corporation is declared an inalienable positive feature of the "American way of life." For example, William T. Gossett, big businessman and author of the book *Corporate Citizenship* (1957) writes: "The modern stock corporation is a social and economic institution that touches every aspect of our lives; in many ways it is an institutionalised expression of our

* *The American Economic Review*, March 1959, pp. 7-8.

way of life.... Indeed, it is not inaccurate to say that we live in a corporate society."*

Such assertions are the usual thing in bourgeois economic literature. But the bulk of the ideas about the transformation of capitalism and about the role of the large corporations in it were set forth in several books published over a short period of time in the 1950s which have now become "classic".

David E. Lilienthal's *Big Business: A New Era* and John K. Galbraith's *American Capitalism. The Concept of Countervailing Power* came out in 1952 and found a broad response. In 1954 A. Berle published *The 20th Century Capitalist Revolution*. John Strachey's *Contemporary Capitalism* was published in England in 1956 and immediately won renown in the U.S.A.

It is characteristic that these authors are not only university professors, but are also directly connected both with private business and the government. All these books were not written as scientific treatises comprehensible to a small circle of professionals, but were intended for a comparatively wide range of readers. In recent years the ideas set forth in these books have for the most part (except certain "extremes") been adopted by all of the official bourgeois economic science and have been exerting some influence on government policies.

The common feature of these conceptions is in the first place an unconditional acknowledgement of the enormous concentration of capital and the economic power based on it in the

---

* *The Corporation in Modern Society*, ed. by E. S. Mason, Harvard University Press, Cambridge, Mass., 1960, p. 27.

hands of a few large monopolistic corporations, which play a decisive role in the country's economy and all of the country's life. Another component of these conceptions is managerism, i.e., an assertion that in the so-called "public" corporations (corporations whose shares are dispersed among a large number of owners) all power is in the hands of directors and executives who are independent of the shareholders. Since the corporations play a very important role, this small group of people possesses considerable economic and political power in society as a whole. However, and this is the third most important aspect of the theory of "transformation", the power of the managers is essentially limited and is beneficent as a result of the activities of the state and certain other social forces.

Berle has gone farther than all the others in idealising the political and psychological factors which allegedly change the nature of the monopolistic corporation and transform it into a "social institution". To find an analogy with the character of the power possessed by the leadership of a large corporation, he turns to the Middle Ages. In England and Normandy during the epoch of feudalism, says Berle, there was "an appeal to the conscience of feudal power" which limited the absolute power of the feudal lord and prevailed over all written laws. Traditionally the feudal lord considered himself bound by this law and upheld it. A giant corporation presumably acts in about the same manner in its relations with its workers and employees, consumers of its goods, suppliers, etc. For example, General Motors considers itself bound by "an appeal to the conscience"

in its relations with the scores of thousands of dealers who sell its products. It treats them "paternally", safeguards them insofar as possible against bankruptcy when the situation is unfavourable, etc.

As early as the end of the 19th century the founders of institutionalism came out against the postulate of classical political economy that the motives of any economic actions of man may be reduced to a striving to exert a minimum of effort and receive a maximum of advantage. Veblen worked out a complex system of motivation of economic activity. Basing themselves on these ideas, Berle and Means arrived at the conclusion in the 1930s that it is impossible to explain all actions of the leadership of a large corporation only by the motive of direct gain. As an important motive of the behaviour of such corporations and their leaders they suggested the power motive: the economic, social and political power to which the managers aspire is separated from property (since they usually possess a very insignificant part of the corporation's shares) and from the profit which ceases to be an end in itself.

But a question arises: is it necessary to interpret the category of profit in the narrow traditional sense in which it applied to the individual capitalist of the times of Smith and Ricardo? Is the profit motive, taken in its broad sense and considering the changes in the system of capitalist enterprise, really opposed to the "new" power motive presumably discovered by Berle?

However, Berle does not stop at that either. He asserts that in modern capitalist society this power is becoming beneficent and humane.

According to Berle's latest views, there are two main factors which limit and normalise the power of monopolies: "corporate conscience" and public consensus.* The latter controls the managers and makes them act "in accordance with conscience".

The public consensus is, of course, not immaterial to the large corporation which strives insofar as possible to have the support of the press, maintain good relations with the authorities of the state and city where it operates, etc. But can it be asserted that this is the main motive of its activities? The corporation needs public consensus insofar as it helps to increase the profits, successfully to compete with the rivals and to become further consolidated.

In his works of the 1950s Berle developed and supplemented the old conception of managerism. As in the book written together with Means he tried to take full advantage of the incontestable fact that the small shareholders of the giant corporations are deprived of all rights of control over their activities. He repeated the unfounded conclusion that all shareholders in general are deprived of such rights.

Actually it is precisely the impotence of the mass of shareholders who only allow the corporations to use their money capital and small savings that is the *sine qua non* for the domination of the groups of the finance oligarchy. This domination rests primarily on the possession of the control blocks of shares and then on the control of the sources of financing the

---

* Adolf A. Berle, Jr., *Power Without Property: A New Development in American Political Economy*, New York, 1959, pp. 90-91.

corporations. Of course, there are quite a few cases where large shareholders behave like mere investors who content themselves with receiving dividends and do not interfere in the actual management of the corporations. There are also corporations which depend little on financing through the market of loan capital. The former and the latter may even combine. Outwardly it then appears that the corporation is run by managers who have no other financial interests except their salaries and who are quite fit, according to Berle, to play the role of "disinterested servants of society".

Above we already dealt with the salaries of the big managers. But these salaries do not in any way exhaust the incomes of the big managers directly connected with their activities in the given corporation. Granting additional bonuses in shares or the right to buy shares from the corporation at a lowered fixed price is being practised on an ever increasing scale. This form of payment is not subject to taxation; if a manager—shareholder—subsequently makes a profit from selling the shares the tax on this profit (capital gains tax) is much lower than the usual tax levied on large incomes. Big earnings are also regularly made in the form of dividends on the shares.

There is a tendency to link as closely as possible the salaries and different forms of additional remuneration of the big managers with the profits of the corporations. They directly participate in the sharing of the profits. Their high position in the corporation offers them opportunities for receiving various other forms of income—directorial posts in other corporations, stock-exchange operations, etc.

It is perfectly clear that these "earnings", which are equivalent to incomes on a capital of millions (sometimes scores of millions) of dollars, can only in a very small part be regarded as wages even for the most highly qualified work, since the wage of a worker, a foreman or an engineer is a very great deal less than that. Economically this is a form of appropriation of profit. Thus the material interests of the managers are closely connected with the profits of the corporations. It is hardly likely that they will act in the name of some "social interests" without trying to make a maximum of profit for the corporation and earn the highest incomes for themselves. Of course, the administration of a modern corporation tries, insofar as capitalist economic anarchy permits, to plan production, capital investments and profits for years ahead. In doing so it may in some cases for a short time forego direct profits, but only in order to ensure a maximum of profits in the long run.

Thus, even if we acknowledge that in some cases managers of this type control the corporations, there is no reason to consider that this changes the fundamental economic and social nature of capitalism.

But usually the people who actually manage corporations directly or indirectly represent some rather remote centres of control. These centres of control are groups of large shareholders, banks and other giant corporations. Data on this matter obtained as a result of one of the most exhaustive pre-war studies have already been given above. There is not the slightest reason to think that any fundamental changes

have occurred in this sphere in the last 20-25 years.

Numerous examples show that the boards of directors of large corporations are, as a rule, composed of persons who themselves are either members of the ruling financial groups or represent them as their agents. This does not mean that the corporations do not have any leaders who are administrative, engineering or accounting specialists. But they do not determine the monopolistic corporation's policies, and if they do, it is only by proxy which may be annulled.

The general rule is not in any way refuted by the existence of some corporations where the managers are "detached" from external connections. But for Berle it is not enough that they should be "detached" in this sense; they must also be profoundly conscious of their "social responsibility" and must act in accordance with it.

Managers of large corporations are, of course, closely connected with the government, and many important questions are settled only after consultation with its appropriate agencies. In their activities monopolies invariably rely on the support of the state. In the final analysis it is precisely the state that is responsible to the monopolists as the top social stratum of modern bourgeois society, but each individual manager now more than ever feels his "responsibility" to the state. Berle identifies society with an imperialist state and depicts the latter as a supra-class power which safeguards the interests of society as a whole. This line of apology is also characteristic of many other authors.

As in many other things Berle is not original

in the "theory of social responsibility of the managers", although he does not like to refer to his predecessors. In 1915 the German economist Schulze-Gaewernitz wrote the words to which Berle could fully subscribe and add that what Schulze-Gaewernitz had only dreamt about has become reality in present-day America. Speaking of the important role which several bankers played in imperial Germany Schultze-Gaewernitz observed: "If this is so, however, the interest of our national being requires the formation of a new spiritual type of banking lord in whom the abstract striving for profit is impregnated with national-political and thereby national-economic considerations...."*

Has Berle gone very far from this when he writes, for example, about the leaders of the industrial corporations: "These men are detached from the conventional workings of the profit system; they become ... professional administrators distributing the fruits of the American industrial system, directing its present activities, and selecting the path of its future growth."** In this case it makes no difference that Schultze-Gaewernitz spoke about bankers and Berle about industrialists.

To many bourgeois sociologists and economists Berle's doctrine appears too vulnerable and unreliable. Even convinced institutionalists feel that such "institutions" as the public consensus and corporate conscience form somewhat unstable ground for explaining the anatomy and physiology of modern capitalism.

---

* G. Schultze-Gaewernitz, *Grundriss der Sozialökonomik*, Buch III, Tübingen, 1914, S. 146.

** Adolf A. Berle, Jr., *Power without Property*, p. 18.

In setting forth Berle's conception Ben B. Seligman, author of a fundamental work on the history of economic thought in the last 100 years, ends with frank irony: "The influence of Adolf Berle was clearly discernible when Means asserted that corporations were accepting a new kind of social responsibility.* The former had argued ... that corporations had developed a quasi-political status which impelled them to act in the public interest, particularly since public opinion and the threat of state intervention were such potent controls.... But the assertion that all is well because the corporation now seems to be acquiring a soul hardly faced up to the basic problems."**

Interesting from the point of view of the attitudes of American scientists to Berle's ideas is also the book *The Corporation in the Modern Society* edited by E. S. Mason and published in 1960 by Harvard University. The foreword to the book was written by Berle who in condensed form again set forth the essence of his conception. This conception left its imprint on the whole of the book. But, while starting from Berle's views, some of the authors of this book enter into polemics with him rather than develop his ideas. Eugene W. Rostow writes: "Corporations have 'souls' and 'consciences', we are told. They no longer take a 'narrow', 'selfish' view of policy, but what passes for a more statesmanlike attitude towards their problems....

---

* This refers to the works of Means published in recent years, especially his article "Collective Capitalism and Economic Theory" in the *Science* magazine, August 16, 1957.

** Ben B. Seligman, op. cit., p. 246.

It is difficult to give any palpable meaning to these ideas."* Carl Kaysen also observes: "It is not sufficient for the business leaders to announce that they are thinking hard and wrestling earnestly with their wide responsibilities, if, in fact, the power of unreviewed and unchecked decision remains with them, and they remain a small self-selecting group."**

This series of quotations throws a bright light on the place Berle occupies in science. The undercurrent of such statements is that maybe Berle is all right for propaganda, but as a scientific conception it is difficult to take his views seriously.

Berle skilfully talked his way out of this and the other criticism by stating in the foreword that these polemic aspects were "merely incidental shoptalk between men working in the same field. More significant is the fact that these non-statist collectivisms ... are now being studied as they are, and for what they are".***

As a matter of fact, the authors of the book and Berle see eye to eye in the main thing; capitalism, as they believe, is being transformed, is getting better, and in this the most important part is played by the monopolistic corporation. Another point of view cannot even be conceived in so respectable a circle. But the more important are therefore the differences because they show that not all is well with the main thesis.

We shall now examine in greater detail some

---

* *The Corporation in the Modern Society,* p. 60.

** Ibid., p. 104.

*** Ibid., p. XIV.

of the most important aspects of Berle's conception and the social and economic problems connected with it.

4. CONCENTRATION OF SHARES IN FINANCIAL INSTITUTIONS

The conception of managerism and the doctrine of social functions of the corporation proceed from the tendency toward an increasingly wider dispersion of the shares of large corporations. Berle and his adherents assert that the control by individual rich families and narrow groups on the basis of owning most or, generally, a large block of shares is losing its importance. Above it was already stated that on the whole the facts do not confirm this thesis. The separate cases where the heirs lost control over the corporation founded by their ancestors cannot prove anything.

About 10-15 years ago the attention of economists began to be attracted to the fact that, despite the increase in the number of individual shareholders after the war, the shares of industrial corporations, especially the large monopolies, increasingly concentrated in the hands of credit and financial institutions. These are, in the first place, departments of commercial banks managing by trust the capital of individual rich investors, as well as of various social, charity and other organisations. This capital amounts to a tremendous total—at least 100,000 million dollars. However, it played an important role already in the 1920s. Particularly characteristic of the 1950s is the rapid growth of private pension funds, investment and insurance companies, and an increase in the invest-

ments of the resources of these institutions in the shares of industrial corporations.*

According to Raymond W. Goldsmith's estimate, the share of the financial institutions in the domestic corporate stocks increased from 12 per cent in 1929 to 21 per cent in 1952.** Already this was a considerable change. But then this process gathered speed. According to the Senate Commission, 27,000 million dollars' worth of shares were issued in 1953-60. Of these about 18,000 million dollars' worth were acquired by financial institutions, not counting the

---

* Pension funds are a special type of financial institution which have developed mainly since the end of World War II. The law exempts the funds deposited by corporations in pension funds from the income tax, which is one of the important factors that have contributed to their rapid growth. Part of the deposits are made by the workers themselves out of their wages. Out of the funds thus formed pensions are paid to qualified workers who have linked their life with the given corporation. The reserve funds accumulated in these institutions are used as loan capital. Large banks which usually manage the pension funds by assignment of the corporations that create them invest this capital in securities, including shares of various companies. The investment companies (trusts) sell their shares to the population, in a large measure to the petty bourgeoisie and small shareholders in general, and the capital thus collected they invest in shares of industrial corporations. As a rule, they are under the control of some financial group which uses their operations for their own enrichment.

The insurance companies collect as payments on insurance policies vast sums and invest the reserves formed by them in stocks and bonds of corporations, in mortgage loans, etc. In the U.S.A. about half of all the life insurance operations and the assets of the insurance companies are in the hands of five giant corporations.

** Raymond W. Goldsmith, *Financial Intermediaries in the American Economy Since 1900,* Princeton, 1958, Table 93.

bank departments for managing capital. Pension funds came first (8,300 million dollars or 31 per cent) and investment companies were second (5,700 million dollars, or 21 per cent)*. The individual American investor of whom the ideologists of "people's capitalism" speak so much, has apparently acquired no more than 15-20 per cent of these shares, a considerable part of this sum finding its way into the hands of big capitalists. Only a small part of the total number of issued shares was acquired by the small shareholders. Since annual issues add but a small part to the mass of formerly issued shares, the redistribution of the shares in favour of financial institutions takes place rather slowly. It may be assumed, however, that this share already amounts to about one-third. Berle holds that in the nearest future the share of the pension funds alone in the ownership of stocks will reach 10 per cent. It is also important that financial institutions concentrate stocks mainly of the large, established corporations.

The tendency towards concentration of shares in the hands of financial institutions is evident, but what are its social and economic meaning and import?

Berle, who cannot be denied a keen sense of the present, grasped at this tendency and interpreted it in the spirit of his conception. He suggests that the following stages in the development of American "corporate capitalism" should be distinguished from the point of view of development of property and control over the

---

* Paul P. Harbrecht, *Pension Funds and Economic Power,* New York, 1959, p. 230; *Business Week,* May 13, 1961.

corporations: 1) a period typical for the unity of property (in the form of a majority of shares) and control exercised by a narrow group of large shareholders. This period essentially ended in 1914 ("age of plutocracy"); 2) a period of gradual transition of the control from the big owners to managers (1914-28); 3) a period of predominant control by managers and reduction of all shareholders to a position of impotent profit receivers (from the end of the 1920s to our days); 4) a period of concentration of shares in the hands of financial institutions which are acquiring potential chances of control, this period beginning in our days.*

This periodisation is wrong. To say nothing about managerism, the question dealt with above, the situation is also in other respects not as it is pictured by Berle. There is nothing new in influence of financial institutions on industrial corporations. In the beginning of the century, in addition to big shareholders-industrialists, a very important role in the control of industrial corporations was played by bankers. Subsequently there were only certain changes in the correlation and forms of connections between the industrial monopolies and monopolistic loan capital. In particular, powerful insurance companies grew up side by side with the banks. The forms of connections between the banks and industry have changed: in addition to the control over the issues of securities, and partly instead of it, an important role began to be played by the management of the capital of rich people and of pension funds.

But Berle pictures these changes in the

* Adolf A. Berle, Jr., *Power without Property*, pp. 72-76.

structure of monopoly capital as something entirely new. About the "financial managers", i.e., pension trustees, mutual fund managers and insurance company managements, he writes: "These emerging groups are themselves self-perpetuating. Though allied to corporate managements, they are on the margin of that world, closer to the world of bankers than to the world of production and sales executives."* "Industrial managerism" is supplemented by "financial managerism", and this is represented as a new phase in the development of American capitalism.

But from the emergence of new forms of connections between industrial and financial monopolies Berle draws even more far-reaching conclusions. He asserts that these processes together with the change in the very nature of the monopolistic corporation signify practical liquidation of private capitalist property within the framework of capitalism and its replacement by "quasi-public" property managed "by proxy" by managers of industrial corporations and financial institutions. The latter are as yet essentially a potential power, but, as Berle observes, "not often in history does the holder of potential power decline to use it".**

In 1954 Berle stated that the following was taking place under conditions of developed capitalism in the 20th century: "The capital is there; and so is capitalism. The waning factor is the capitalist. ... In his place stand the boards of directors of corporations, chiefly large ones,

---

* Adolf A Berle, Jr., *Power without Property*, p. 59.

** Adolf A. Berle, Jr., *The 20th Century Capitalist Revolution*, New York, 1954, p. 45.

who retain profits and risk them in expansion of the business. . . ."* Now he adds that the concentration of stocks in the hands of financial institutions still more intensifies the process of "waning of the capitalist". In individual shareholders it is still possible in some measure to see capitalist owners, although deprived of all property rights, except the right to dividends which, however, are determined at the discretion of the directors. But when the shares are owned by an insurance company or a pension fund there are no property owners at all. To be sure, if some pension fund owns General Motors shares, it cannot be assumed that the workers for whom this fund was legally formed are through these shares owners of General Motors. Who then owns such a corporation? Nobody or all of society. At any rate, Berle emphasises, such is the tendency.

Paul P. Harbrecht, American Jesuit and Berle's pupil and follower, who wrote a big book on pension funds, is also trying to make a number of sociological generalisations. He declares that a society is developing in America, which is no longer capitalist since it is being built not on private property relations, but on "power relations," while power is determined by man's position in society, his services to society. To characterise this "super-capitalism", Harbrecht uses the expression "paraproprietal society".**

The financial institutions, which gradually concentrate the shares of industrial corporations

---

* Ibid., p. 39.

** Paul P. Harbrecht, *Pension Funds and Economic Power,* New York, 1959, Ch. 10.

and thereby their property, are pictured by the author as entirely impersonal, purely social organisations. If the managers of large industrial corporations may be considered agents of all of society, then what is there to say about the boards of directors of insurance companies, pension and charity funds? These are entirely "public servants" with no class or group interests.

Thus from seemingly technical details of the financial sphere Berle and Berleans draw conclusions that refer to the problem of ownership of the means of production. They declare private capitalist ownership to have been abolished. They assert that the decisive form of property under modern developed capitalism is new collective property, which therefore obviates the question of the fundamental opposition between capitalism and socialism and the question of the socialist revolution. The "American Economic Republic" now proclaimed by Berle, nearly 200 years after proclamation of the political republic by Jefferson and Washington, is the new social system which negates capitalism and socialism and communism.

We shall now examine the problem of property in its development and real content, freeing it from Berle's florid phraseology.

5. EVOLUTION OF PRIVATE PROPERTY

During the early stages in the development of capitalism the property earned by the personal labour of the small producer—artisan, peasant, merchant—is transformed into its opposite, i.e., property which becomes an instrument of exploitation of other people's labour

and of appropriation of surplus value. In order that the property of some people should undergo this evolution it is necessary that the other people, and the majority at that, should be deprived of all ownership of the means of production. At the time of Adam Smith the characteristic form of private property was individual capitalist ownership of enterprises. In a joint-stock company ownership undergoes evident changes. The capital of the capitalist who transforms his enterprise into a joint-stock company becomes a mere nucleus about which other people's capital accumulates (through subscription to shares and credit). This capital is social in the sense that the capitalist now turns to the whole of society as a source of capital.

In a joint-stock company private property acquires a twofold nature. Capital as property is personified in the investor who, as a rule, strives to distribute the risk and holds but a small part of the shares of the given corporation. Capital as a function is personified in the capitalist who is a large shareholder and who runs the enterprise either personally or through hired managers.

As the concentration increases and modern monopolistic corporations are formed this division becomes more distinct. The private property of a small shareholder becomes increasingly more formal and is transformed into a mere right to an income, the extent of which is within certain limits determined by the management of the corporation. On the other hand, the private property of the large shareholders develops into a higher form which might be called the "ownership of the controlling group"

or, for short, the "control ownership". We must not be deceived by the fact that sometimes large shareholders and the actual owners of the corporation are not the same people. The owners of large blocks of shares and the higher corporate bureaucracy compose one social group, the higher stratum of the capitalist class which exercises "control ownership".

The possibilities of the "control ownership" are enormous. As is well known, industrial and financial empires are established by means of a system of participation, holding companies and interlocking directorates (incidentally, all this is very well described in Berle and Means' book *The Modern Corporation and Private Property*, published in 1932).

American economists sometimes say that such excesses of the "control ownership" are a thing of the past, that the 1929-33 crisis and state regulation have weakened the system of holding companies. Indeed, under the blows of the crisis many empires, especially of railways and public utilities, crumbled. A number of laws which gave greater publicity to the affairs of large corporations, etc., were passed. But all these are changes in details and not in principle. John K. Galbraith once observed: "To suppose that there are grounds for anti-trust prosecution wherever three, four or half dozen firms dominate a market is to suppose that the very fabric of American capitalism is illegal."*

The same thing may be said about the system of participation, holding companies and "control ownership" in general: it cannot be cen-

---

* John K. Galbraith, *American Capitalism. The Concept of Countervailing Power,* London, 1956, p. 73.

sured without finding American capitalism itself illegal.

Like many others, since the end of the war Berle has been prone to deny the fact that the corporations are uniting in still larger groups which are controlled from few centres, or at least to underestimate its importance. Unlike the epoch preceding the 1929-33 crisis, the industrial and financial groups now no longer advertise themselves. Their true owners often avoid publicity and put the managers into the foreground. But many things become clear during the fights for control which occur from time to time among the different groups.

In 1961 the Murchisons, Texas oil magnates, wrested the control of the Alleghany Corporation, a large holding company, from the big financier Allan P. Kirby. Before the beginning of the battle they owned shares of this company with a market value of only 15 million dollars.* But by seizing the control of the company and establishing their own board they thereby acquired control of corporations with total assets of between 7,500 million and 8,000 million dollars, including two large railways and five investment companies together with the Investors Diversified Services, the company which managed them. In the course of the fight for the control the Murchisons bought up in the market a considerable number of Alleghany shares and mobilised the shares which were in safekeeping in friendly banks. In this way they managed to collect a control block of shares and during the voting to drive Kirby and his people out of the Alleghany board and then

---

* *Fortune,* April 1961, p. 121.

from the boards of the companies under its control.

Of course, the development of large corporations and "control ownership" complicates the capitalist property relations. The existence of large financial institutions which accumulate the savings of broad sections of the population adds to this complication.

The formal ownership of these institutions is even more diffused than the joint-stock ownership of industrial corporations. Thus most of the large life insurance companies in the U.S.A. are mutual, i.e., "belong" to the many millions of their policy-holders. The investment companies "belong" to their shareholders, but their shares are particularly dispersed among the mass of holders and in essence carry no right of ownership. Lastly, lawyers vainly argue about who owns the pension funds; if the owners are the industrial and office workers who by decades of work have earned the right to a pension from the funds, it is a very strange ownership, indeed, for it cannot be sold or transferred, it gives no right to dispose of the accumulated money or do anything at all with it. Moreover, the aforesaid institutions are often characterised by a passive ownership of the shares of industrial companies, i.e., they appear not as active owners, but as passive income receivers indifferent to the affairs of the company. Berle and his followers try to make use of these facts in their conceptions of "abolishing" private ownership under modern capitalism.

But a concrete analysis of the activities and the system of managing financial institutions attests something else. Actually the principle inherent in the joint-stock company—the sepa-

ration of formal ownership from real control over the capital—is here carried to the limit.

The experience of insurance companies disproves Berle's assertions with particular force. Their leaders are in no way fit for the role of disinterested public servants, which he should like to ascribe to them. On the contrary, their predatory policy with regard to their clients, their inclination to monopolistic collusion, their mercenary practice in financing the economy have in the last three decades in the U.S.A. been exposed in a number of books and periodicals and have brought about a number of government investigations.

Nor can the managers of the insurance giants be called independent and not subject to extraneous influences. Of course, information on this question is extremely scant, but suffice it to say, for example, that in 1960 the board of directors of the Metropolitan Insurance Company, one of the largest insurance companies in the country and the capitalist world, included seven persons who were simultaneously directors of large Wall Street banks, among them four representatives of the Rockefeller-controlled Chase Manhattan Bank.

By virtue of legislative limitations and established traditions insurance companies own comparatively few common stocks of other corporations. But, to influence the corporations, they make use of their vast resources invested chiefly in loan bonds of the corporations.

No less dubious are Berle's references to investment companies. The wide distribution of their shares only enables small groups of rich financiers acting through so-called managing companies and through banks completely to

control the capital concentrated in them. The control of investment companies has of late been an important source of enrichment for these persons and groups.

Thus the largest investment company in the U.S.A.—the Investors Mutual Fund—is under the management of the Investors Diversified Services which, as was noted above, was seized by the Murchison group in 1961. However, its old owners made an enormous profit on the control of this company since from 1948 to 1959 the price of its shares increased 200-fold.

To substantiate his ideas Berle particularly often refers to corporate pension funds. But he has no luck here either. In his very thorough study Harbrecht admits, with a number of reservations, that nearly all funds are under the complete control of a dozen large New York banks who manage them as authorised agents. They share their power partly with the large corporations which establish the pension funds. The development of this type of financial institutions suggests to Harbrecht the following conclusion: "It may not be too much to say that the centre of influence in our economy, having left the Wall Street of the 1920s and migrated in the 1930s and 1940s to the provincial centres of corporate power, has now returned to New York financial circles."* In this case it is not the ideas concerning these migrations of the "centre of influence", but the recognition of what the development of financial institutions, which allegedly liquidate private ownership, leads to, that is important.

The large banks concentrate not only the

* Paul P. Harbrecht, op. cit., p. 249.

shares they acquire with the pension funds, but also the large blocks of shares bought with personal trust funds—the fortunes of individual capitalists, investors and other wealthy people. This concentration of shares also in certain measure leads to transformation of formal ownership into real "control ownership".

In his book *The American Economic Republic* Berle devotes some attention to the increase in the portfolio of shares of the charity funds and other non-commercial organisations. In his estimation they own about 20,000 million dollars worth of shares and are consequently also large owners of industrial corporations.* A particularly important role is played by the large charity funds established, as a rule, by dynasties of millionaires; these include the Ford Foundation, the Rockefeller Foundation and many others. But from long experience it is well known that the large funds can in no way be considered purely "public institutions", independent of their founders. Usually the founders of the funds, their heirs or agents hold key posts on the boards of trustees. Each fund is, as a rule, connected with a large corporation which is under the influence of the same family or group that plays the leading role in the management of the fund. At the end of 1962 the Rockefeller Foundation had 4.7 million shares of the Standard Oil Company of New Jersey, which amounted to 2.17 per cent of all the shares issued by it.** This block, despite its certain diminution in connection with the policy

* See Adolf A. Berle, Jr., *The American Economic Republic*, p. 57.

** See *The Rockefeller Foundation Annual Report*, 1962, p. 70.

of diversified investments pursued by the fund essentially supplements the block of Standard Oil shares in the possession of the Rockefeller family and other organisations under its control.

Of course, in our time the system of control over corporations is much more complex, much more intricate and veiled than in the beginning of the century or in the 1920s. Sometimes the control is more limited, less complete. It may be divided among several industrial and financial groups. No small changes have occurred in the forms of private capitalist ownership. But this ownership, which has reached its highest development in the "control ownership", remains the basis of modern American capitalism.

Berle and his followers do their best to emphasise the difference between the modern financial monopolies and the old predatory bankers. The former are allegedly stable, reliable organisations whose leaders are very well aware of their "social responsibility". Bourgeois economists believe that the control of powerful financial institutions will make it possible to "bring order" into industry, while completely retaining its private capitalist character. In their opinion such control might make it possible to eliminate the dominant anarchy with its pernicious effects which are responsible for the attempts at direct state intervention. Ernest Dale appeals to the financial institutions to participate more actively in the control over industry because otherwise "the various public authorities may well be tempted to fill the vacuum".*

* Ernest Dale, "Management Must Be Made Accountable", *Harvard Business Review,* March-April 1960, p. 58.

This reflects the crisis of private monoply capitalism and at the same time the fear of "excessive" increase in the functions of the state.

Capitalism is unable effectively to manage the tremendous production and distribution machinery it has created. The course of history imperatively demands the replacement of private capitalist ownership of the means of production by socialist ownership.

6. CONCERNING SO-CALLED COLLECTIVISATION OF ACCUMULATION

An important role in the conceptions of transformation of capitalism is played by the thesis of "collectivisation" of accumulation. This is one of the arguments used by Berle and his followers in their defence of the idea that private ownership of the means of production under modern capitalism is gradually disappearing.

If we sum up the views of Berle, Strachey and certain other authors on this question, the process of "collectivisation" of accumulation operates along three lines: first, by an increase in the tax levies and capital accumulation by the state; secondly, by an increase in the accumulation within corporations for self-financing; and, thirdly, by enhancement of the role of the financial institutions which collect the savings of the broad sections of the population and completely separate the savers from the process of real accumulation of capital.

Moreover, Berle wants to reconsider the very concepts of capital and accumulation of capital. He proposes to include in these concepts the sum of accumulated experience and knowledge

and other intangible elements of the productive forces. He says that since the stock of scientific knowledge and experience is not in any way managed by capitalists, but by managers, the superintendents of production, scientists and engineers, there is no reason for speaking of capital as an instrument of class exploitation and embodiment of class antagonism. Berle writes: "Public officials, professional administrators of financial institutions, and the managers of corporations—these are the real holders of economic power proceeding from capital. The nineteenth century warfare between socialists and private-owner enterprisers—capitalists—thus becomes increasingly, if not wholly, academic in the twentieth century."* This phrase, as we see, includes everything—industrial and financial managerism, the supra-class role of the state, and the social responsibility of the managers. And all this was done to declare the class struggle a survival of the past doomed to complete disappearance in the nearest future.

In recent decades essential changes have undoubtedly occurred in the mechanism of accumulation in the economy of developed capitalist countries. However, these new phenomena have not changed its social essence, have not, in particular, liquidated the capitalist nature of accumulation.

Nobody has any doubts that the role of the state in utilising the national income of the capitalist countries has greatly increased. However, the major part of the resources obtained by taxation is spent by the bourgeois state not

* Adolf A. Berle, Jr., *The American Economic Republic*, p. 65.

on productive capital investments, but on military and administrative needs. In the U.S.A. this is more evident than anywhere else. Even in peacetime the capital investments made by the state are usually covered by loans which the state obtains in the loan capital market by drawing on the savings of the population and the enterprises. As economists put it, the state carries out a net dissaving.

In the U.S.A. this applies particularly to the federal government which spends on financing military expenditures not only its money resources collected in taxes, but also the reserve funds of social insurance and security.

Since the end of the war the state administrations, the municipalities and other local governing bodies have been carrying on rather extensive capital construction—schools, hospitals, transport and communal facilities. For 15 years previously there had been a slack in this field conditioned by the crisis of the 1930s and the war. This signifies an increase in the services sector which private capital formerly also often left to the government.

The state exerts considerable influence on intra-corporate accumulation. Of late the policy of the American Government has been to ensure the large corporations a chance to retain more money capital for new capital investments. For this purpose the profits tax paid by the corporations has been reduced and accelerated depreciation of the equipment has been allowed. This depreciation which makes it possible to reduce the profits shown in the accounts and thereby to reduce the taxes is of advantage primarily to the large companies, especially those connected with the war industry.

In addition to the state policy there are objective causes for the accelerated depreciation of the fixed capital and for a considerable increase in amortisation deductions: technical progress and increased moral depreciation of the equipment, the protracted tendency towards a rise in prices in the American economy, etc. In addition to the depreciation deductions whose chief aim is to pay for the replacement and renewal of the fixed capital, undistributed profit is a source of intra-corporate accumulation. The share of the undistributed profit in the total after-tax profit of the corporations has a definite prolonged tendency towards growth: since the end of World War II it has been, as a rule, higher than in the 1920s.*

This statistical fact plays an exceptional role in all of Berle's conception. He comes back to it again and again in all his books, cites various statistical data (incidentally, quite unco-ordinated and not always convincing) and interprets this fact very broadly and zealously. From the change in the distribution of the profits he turns to the thesis of the independence of the managers and their transformation into public agents. The corporation thus becomes a "public institution". With his characteristic grandiloquent vagueness Berle writes: "More recently we are beginning to see a pattern for distribution of its [the large corporation's.—*A.A.*] profits, suggesting an eventual non-statist social-

* Usually economists compare such statistical data of the post-war period with the data of the 1920s because the indices of the 1930s reflect the enormous influence of the crisis; for example, during that period many corporations made no profits and suffered losses.

isation of these profits unique in its institutional impact."*

Berle has no time to go in for statistics fundamentally, just as he has no time to study his predecessors. Meanwhile, the statistical picture of intra-corporate accumulation and financing of corporations is not at all so simple as he pictures it. Let us take a closer look at statistics.

In the first place it should be noted that since the end of the war the share of undistributed profit in all of the net after-tax profit of the corporations has been decreasing: in 1946-50 it was 50 per cent and in 1956-60 it was 41 per cent. It decreased still more for the group of large corporations in the manufacturing industry: from 52 to 39 per cent.**

It further turns out that the large corporations distribute in dividends a greater part of the profits than do the small and middle corporations and, consequently, accumulate a smaller part. According to John Lintner and J.K. Butters, in 1936-48 corporations in the manufacturing industry with assets of more than 100 million dollars retained as undistributed profit a much smaller part of after-tax net profit than did all the other corporations.*** In 1956-57, one

---

* *The Corporation in the Modern Society*, ed. by E. S. Mason, Harvard University Press, 1960, p. IX.

** These figures based on official sources originally appeared in A. Anikin's book *Kreditnaya sistema sovremennogo kapitalisma. Issledovaniye na materialakh SShA (The Credit System of Modern Capitalism. A Study on U.S. Materials)*, Chapter 10.

*** J. Lintner and J. K. Butters, "Effects of Taxes on Concentration", *Business Concentration and Price Policy*, NBER, Princeton, 1955, p. 260.

hundred and one large corporations in the manufacturing industry (with assets of more than 250 million dollars each) distributed in dividends 76 per cent of the profit, while more than 128,000 of all the other corporations distributed only 44 per cent.*

This fact is connected with the higher rate of profit of the large corporations and the tax privileges they enjoy, for which reasons they can afford to pay higher dividends and at the same time accumulate sufficient capital. But there are also other reasons, for example, the corporations are greatly dependent on the leading group of shareholders and the money market and are therefore forced to pay high dividends.

Over a period of decades the share of undistributed profit in the financing of corporations has not shown any appreciable tendency towards increase. According to S. Kuznets, in 1901-12 this share amounted to 21 per cent, whereas in 1923-29 it was 18 per cent and in 1946-56 it reached 23 per cent.** According to official postwar statistics, since the end of the war it decreased rather than otherwise.***

With the aid of statistical material some American economists seriously criticise Berle's propositions concerning the radical change in the character of accumulation and financing of large corporations. In this respect John Lintner's article "Financing of Corporations" in the

---

* *Statistics of Income 1956/1957. Corporation Income Tax Returns*, Washington, 1959, p. 39.

** S. Kuznets, *Capital in the American Economy. Its Formation and Financing*, NBER, Princeton, 1961. Table 39.

*** See A. Anikin's aforesaid book, p. 399.

book *The Corporation in the Modern Society* is of some interest.

Lintner avoids examining the changes in the modern corporation (the question of the power of managers, etc.), but tries to show that Berle's assertions about the financial and economic aspects of these changes do not correspond to the facts, since the principles of financing the corporations have essentially remained unaltered. Lintner writes: "The relative position of stockholders vis-à-vis management may or may not have become more dependent with the passage of time, but the major effect predicted from such increased freedom and power in management's hands are not discernible in the record."* He shows that no "social" motives can be detected in the character of accumulation and financing of the corporations even by a very thorough analysis. This character is determined by the spontaneously shaping conditions in the economy and on the loan capital market.

During the first post-war years there was a more radical change in the distribution of the profits of companies in favour of retained profit in West European countries than in the U.S.A. The countries ruined by the war were faced with the problem of sharply raising accumulation rates for the purpose of making larger capital investments in the main branches of the economy. The mechanism of accumulation of the people's savings and the loan capital market were undermined by protracted and heavy inflation. Under these conditions retention of a

* *The Corporation in the Modern Society*, p. 181.

large part of the profit and self-financing became a vital economic necessity. Many governments pursued a policy of more or less compulsory limitation of the dividends paid by the companies in order to help them retain the profits and finance themselves.

Subsequently these limitations were annulled or reduced, and the share of the dividends in the profit increased. By that time increasing masses of personal savings started coming in through the credit system and the loan capital market. The corporations began to issue securities and, to attract investors, had to raise the dividends on the shares.

Thus it cannot be said that the character of distribution of corporation profits is sharply and steadily changing in the direction of increasing intra-corporate accumulation. This process is more complicated and contradictory than it is pictured by Berle.

Much more significant, however, is the social import of the intra-corporate accumulation since the growth of many large companies shows that the monopolistic corporation actually has greater possibilities for internal accumulation. This is fostered not only by the system of profit distribution, but also by the practice of monopoly price formation, the state taxation policy and other factors. The internal sources of financing combine with the external sources (issues of stocks and bonds, bank loans). These forms of attracting capital are the most accessible to the large corporations and the financing costs less.

Intra-corporate accumulation must be examined from the point of view of the class structure of modern capitalist society. The accumula-

tion of capital in monopolistic corporations is social only in the sense that it prepares the material prerequisites for socialist socialisation. But this occurs precisely through the private capitalist character of wealth accumulation being carried to the limit and the social contradictions resulting from it. The capital accumulated by monopolistic corporations lends power to the bourgeoisie and is opposed to the working class. Moreover, this capital embodies the power of a small group of monopolists with respect to the whole of society, including the petty and middle bourgeoisie.

The intra-corporate accumulation is completely separated from the mass of small shareholders. Subsequently it may at best somewhat raise the dividends they receive or the price of the shares they hold, but qualitatively this does not in any way alter their position. Directly, however, an increase in undistributed profits means a reduction in their dividends and, consequently, new sacrifices on the altar of finance capital.

In some cases a corporation may not pay any dividends at all for a long time and accumulate all the profit it has made. For the small shareholder the shares of such a corporation have but one value—a hope for a better future.

Contrariwise, for the controlling groups of the finance oligarchy the intra-corporate accumulation may be a source of increase in their power and extension of their influence (for example, by using the profits to purchase shares of other corporations) and all sorts of large incomes not in the form of dividends (high directorial salaries, transfer of profitable orders to other firms controlled by them, etc.). The

aforementioned Alleghany Corporation has not paid any dividends on its common shares since the 1930s (for it has not paid its debts on preferred shares),* but the control over it is very valuable and was the cause of the bitter fight between two groups. For the magnates—Kirby and the Murchisons—the capital of the Alleghany Corporation is an element of their wealth and power.

The American sociologist C. Wright Mills justly says: "The pyramid of wealth cannot be understood merely in terms of the very rich; for the great inheriting families, as we shall see, are now supplemented by the corporate institutions of modern society: every one of the very rich families has been and is closely connected ... with one of the multimillion dollar corporations."** Correspondingly the wealth of a large

---

* In the U.S.A. preferred shares are those which do not give their holder a right to vote, but guarantee a fixed income in the form of a dividend established beforehand. In contrast to these, no dividend is fixed for common shares, but is established for each year (half year, quarter) by the board of directors. But, as the foregoing example shows, the "guarantee" of paying dividends on preferred shares is not always effective.

** C. Wright Mills, *The Power Elite,* New York, 1956, pp. 9-10. FBON.

In his last book Berle settled his accounts with the late Mills who as a prominent sociologist really tried to gain an insight into the complex class anatomy of the modern and quickly changing American society. Berle writes that Mills' aforesaid book was a "... singularly inaccurate and unimpressive attempt to manufacture an interlocking oligarchy in the United States controlling, respectively, finance, business, the armed forces, and its government" (A.A. Berle, Jr., *The American Economic Republic,* New York, 1963, p. 11). Actually, however, Mills with his well-grounded analysis is much more convincing than Berle with his vague concepts, like those of the "soul" and "conscience" of the corporations.

corporation tremendously reinforces and increases the wealth and power of some family or group. The accumulation of capital in this corporation is a source of wealth and power of such a group.

We still have to examine the role of the modern credit system and the new financial institutions in the process of accumulation of capital. In doing this we must consider what has already been said about their system of management.

The role of financial institutions in the accumulation of money capital and savings has been considerably enhanced. Before World War I and in the 1920s only about half of all the population's savings in monetary form found its way to the loan capital market through financial institutions, and the other half through the purchase of securities, chiefly shares, by the population.

Since World War II securities have accounted for less than one-fifth of all savings, and stocks and bonds of corporations—for not more than one-tenth. All the rest of the savings are being accumulated by various financial institutions. Among the latter the role of the banks has diminished and that of the savings, insurance and pensions institutions has increased. These institutions transform the savings of any extent and any purpose into money capital and transfer them to the industry (partly also to the state, especially to the local governing bodies). The money capital is used for financing capital investments.

The increase in the accumulation of savings through the aforementioned institutions means that modern monopoly capitalism is forcing

ever broader sections of the population to participate in the accumulation of capital from which they are completely separated. Here this separation is even more complete than it is for the small shareholder in the industrial corporation.

Despite the extensive propaganda campaign it is the bourgeois sections of the intelligentsia, well-paid white-collar workers and the upper stratum of industrial workers which increase the number of shareholders. According to the New York Stock Exchange, from 1956 to 1962 the number of shareholders in the U.S.A. nearly doubled. But the increase was due to the purchase of shares by people with an annual income of more than 7,500 dollars; the share of these people in the total number of shareholders increased from 35 to 60 per cent. Contrariwise, the share of the people with an annual income of up to 3,000 dollars (chiefly low-paid industrial and office workers and small farmers) diminished from 11 to 6 per cent, while the absolute number of shareholders of this group remained almost unchanged*.

Shares are the pre-eminent form of investing money capital by the big bourgeoisie. The American economist and statistician Robert J. Lampman, who has made a most complete and thorough estimate of the personal fortunes of the top stratum of American society, has calculated that in 1953 persons with a fortune exceeding 60,000 dollars (a little more than 1 per cent of the total population) held 82.4 per cent of all shares and 88.5 per cent of the in-

---

* *Statistical Abstract of the United States*, 1962, p. 473.

dividually owned corporate bonds.* There is no doubt that during the subsequent decade the concentration of shares in the upper stratum of rich people did not decrease since Lampman's further data show that the share of this stratum in the total wealth of the U.S. population noticeably increased.** An important factor in this was a considerable rise in the share prices during the indicated period.

The savings of the working people are for the greater part represented by reserves accumulated through payment of the life insurance installments, deposits in banks and other savings institutions, and state bonds. The savings are sometimes also considered to include the accumulated reserves of pension funds, although, as was already stated, this is of little help in elucidating the nature of these funds. According to 1957 data, even in the lowest paid group with an annual family income of less than 2,000 dollars about half of all the families had some sort of savings. In 1963 one-third of the families with an annual income of less than 3,000 dollars had life insurance policies.*** The corporate pension funds now embrace about one half of all the people working for hire.

The average sum of each family's savings in these lower income brackets is small, but the unification of the millions and millions of small deposits and insurance policies by the financial institutions yields thousands of millions of dollars of money capital. However, the savers

---

* Robert J. Lampman, *The Share of Top Wealth Holders in National Wealth 1922-1956,* NBER, Princeton, 1962.

** *Business Week*, January 27, 1962, p. 31.

*** *Federal Reserve Bulletin*, March 1964.

(depositors) have absolutely nothing to do with the utilisation of this capital.

What are the characteristic features of the savings made by the working classes and the intermediate sections of the population through the insurance, pensions and savings institutions?

First, these savings are in large measure neither voluntary nor free. One of the reasons for the extensive development of private insurance is the extreme insufficiency of state social security in the U.S.A. (the small pensions, absence of sick and childbirth benefits, etc.). The economic insecurity has been fostered by considerable chronic unemployment and frequent economic recessions.

Under the terms of a life insurance policy, after paying a number of installments the policy holder is forced to continue paying in order not to lose the money already paid in. In the 1930s many working people continued to "save" in this manner thereby literally subjecting themselves and their families to semi-starvation. The insurance companies force their goods on the clients in a manner unprecedented even under conditions of widespread "high-pressure salesmanship".

As for pension funds, the change of job by a worker or a violation of certain conditions may deprive him completely or partly of his right to the pension and he may therefore lose his "savings".

Secondly, in the aforementioned forms the savings yield a low interest. The interest on savings accounts and state bonds does not in any way compare with the incomes of the owners of large blocks of shares. Capitalist society thereby seems to emphasise the fact that for the

working people their small savings are subjectively not money capital which is accumulated mainly for the sake of profit. There are other motives for the small savings, namely, security in old age and in case of sickness, defraying the expenses on the children's education, intended purchase of consumer durables, etc.

About the insurance savings it may be said that they yield a negative interest. The insured receives no income on the money paid in, but, on the contrary, himself pays for the guarantee he buys.

Thirdly, the savings in the form of deposits, bonds, insurance and pension reserves are expressed in fixed sums of money and depreciate in accordance with the reductions in its purchasing power. Contrariwise, shares have a tendency toward rising in price with the general rise in prices; in recent years their prices rose much faster than the prices of goods. From 1950 to 1965 the prices of shares in the U.S.A. rose on an average to about four times their former value, while the cost of living index for the same period showed an increase of 30 per cent. With the continuous inflation and the accompanying rise in prices which has lasted in the U.S.A. already 30 years, the class differences in the forms of money accumulation have intensified the economic inequality.

The development of the credit system has always fostered an increase in savings. But under modern capitalism the active role of financial institutions in this sphere has been considerably enhanced. It would be more appropriate to describe the activities of many of these institutions not by the term "accumulation" or "collection", but rather "formation" of

savings. At one time surplus value in its different forms (profit, ground rent, loan interest, etc.) was almost the only source of capital accumulation. Earned income is now also becoming such a source. Under the system of modern state-monopoly capitalism the working people find themselves compelled to supply the capitalists with elements of accumulation.

Although this phenomenon existed in Marx's time only in rudimentary forms, he foresaw the enhancement of its role. He wrote: "... The business of actual saving and abstinence ... to the extent that it furnishes elements of accumulation, is left by the division of labour, which comes with the progress of capitalist production, to those who receive the minimum of such elements, and who frequently enough lose even their savings, as do the labourers when banks fail".* To be sure, bank failures have been very rare since the end of the war and the state now guarantees the safety of most accounts, but the losses incurred by the working people through inflationary depreciation of their savings, the predatory policy of the insurance monopolies, etc., are much greater.

The social and economic implication of the growth of the financial institutions which accumulate and form the savings is that through them the same oligarchic group which controls the large corporations subordinates the whole process of accumulation by society. As long as the control over the principal means of production remains in the hands of private monopoly groups accumulation of capital cannot be "collective", i.e., social.

---

* Karl Marx, *Capital,* Vol. III, p. 508.

7. BERLE AND AMERICAN STATE-MONOPOLY CAPITALISM

The "corporate revolution" is but a constituent part (although, probably, the most important part) of Berle's conception which is most fully set forth in the book *The American Economic Republic* published in 1963. The publishers did a good deal of high-sounding advertising. The book jacket announces that Berle's new book "...may well prove to be one of the classic statements of contemporary thought". The publishers hardly do Berle, as a scientist, a good turn when they garishly declare that "America's prosperity and power have, in his view, relegated Karl Marx to a dusty shelf in the museum of history". Not one serious economist or sociologist, whatever his political views, will venture to say this about the great thinker whose ideas never cease to illuminate the various aspects of life and development of capitalist society.

It is Berle's book that is much more likely to be fated for a dusty shelf in a museum. It has not aroused any considerable interest among the broad sections of the public, let alone among specialists. Its success, for example, cannot be compared with that of Galbraith's book *The Affluent Society* which deals with about the same range of questions.

In Berle's views one discovers elements he borrowed, at times quite mechanically, from a number of prominent American sociologists and economists of the last few decades. But the most important thing is that, while taking these ideas, Berle strips them of all vestiges of criticism and striving for reforms which characterises them.

Here is, for example, Veblen's important idea about the existence under modern capitalism of a fundamental contradiction between business and production, i.e., between private ownership and the striving for private profit, on the one hand, and the production of material wealth for the satisfaction of the people's requirements, on the other. To Veblen's mind this was capitalism's most important vice which engendered its other ugly features. According to Berle, this idea assumes an unrecognisable form and from an instrument of criticism is transformed into an instrument of defence of capitalism. He, too, says that these two elements exist, but in his "Economic Republic" they are successfully reconciled. The production concentrated to an enormous extent in large corporations is, according to Berle, conducted by hired managers under the control of the "public concensus" in the interests of all of society, in the interests of consumption. On the other hand, private ownership is represented only by passive shareholders who exert no serious influence on production. This "private property" is completely devoid of all the dangerous economic and social aspects which were pointed out by Veblen when he wrote about the cult of money, the civilisation of the dollar, the cupidity of the big business people.

Berle also borrows Galbraith's thesis of the "affluent society", but likewise deprives it of the critical elements with which Galbraith connects it. Thus Berle holds that the state and private charity (to which he attaches great importance) quite ensure the development of the sphere of collective consumption found inadequate by Galbraith. Unlike Galbraith, Berle

declares the readiness of American society to spend a considerable part of the income profitlessly, on social needs, to be the most characteristic feature of the "American Economic Republic".

Discussing the problem of the character of the modern market, competition and monopoly, and the process of price formation Berle essentially follows Gardiner Means with his theory of "administered price". At the same time he rejects Means' very timid suggestions on state control of the monopolies. Means specifically suggests that all corporations with assets, for example, of over 100 million dollars each should be considered "collective enterprises" and should be subjected to "inspection" by the state from the point of view of their performance of public functions, especially satisfaction of the demand at reasonable prices. To Berle the very idea about this appears doubtful and state control of the monopolies superfluous. As a matter of fact, what does Berle want with such control if his large corporations have a soul and a conscience and treat the consumer parentally?

Berle's book bears the stamp of complacency and boasting. This is particularly evident in his treatment of poverty and unemployment. Berle feels that in the U.S.A. these problems practically do not exist. In his opinion "the American system ... has maintained a large population ... in substantial safety and comfort, save for a few, steadily diminishing areas".* We shall not enter into polemics with

* Adolf A. Berle, Jr., *The American Economic Republic*, p. 14.

him, but shall merely quote a brief excerpt from a noteworthy document published almost simultaneously with Berle's book and signed by a number of prominent American economists, sociologists and public figures; the data given below are based on official statistics:

"A permanently depressed class is developing in the U.S. Some 38,000,000 Americans, almost one-fifth of the nation, still live in poverty. The percentage of total income received by the poorest 20 per cent of the population was 4.9 per cent in 1944 and 4.7 per cent in 1963.

"The stubbornness and novelty of the situation that is conveyed by these statistics is now generally accepted. Ironically, it continues to be assumed that it is possible to devise measures which will reduce unemployment to a minimum and thus preserve the overall viability of the present productive system."*

The last caustic remark could have been made with reference to Berle if the latter had at least suggested any measures in this respect. But Berle merely holds that here there is no problem at all.

As in his former works Berle cites data on increased concentration in American industry. In 1947 two hundred of the largest corporations in the manufacturing industry sold 30 per cent

---

* "The Triple Revolution. Manifesto of the Ad Hoc Committee on the Triple Revolution", 1964 (*Worker*, March 31, 1964, pp. 5, 7). The members of this Committee and authors of the Manifesto included Linus Pauling, Nobel Prize Winner, the aforementioned Ben Seligman and the noted economist Robert Theobald. By the "Triple Revolution" they imply the sharp changes of late taking place in the U.S.A. in three fields: the "Cybernation Revolution" in production; the "Weaponry Revolution" and the "Human Rights Revolution."

of all of the manufacturing industry's output, in 1958—38 per cent and in 1962 about 40 per cent.* He emphasises that 500-600 large corporations which group about them a mass of small enterprises "living in the penumbra of the great neighbour", control American economy. From here with minor differences runs the well-known thread: the corporations are managed by independent managers who are allegedly guided by motives of public welfare; the economic power of the managers is separated from the political power of the state which embodies the control of society over the managers. And this is the "American Economic Republic".

In this work, too, Berle discusses the forms of ownership and effacement of the differences between private and public ownership. He writes: "The word 'private' is open to question. An individually-owned retail shop or farm (or small plant) is undoubtedly 'private'. But can the same be said of the 500 or 600 giant corporations carrying on two-thirds or more of the industry of the country and influencing conditions in much more of it? I doubt it."** Berle has still greater doubts about the private character of ownership of the big banks. According to Berle, they are private institutions only nominally, only because the "American Economic Republic" has found preservation of their private character expedient from the point of view of their efficiency.***

These doubts are very typical. Observing

---

* Adolf A. Berle, Jr., *The American Economic Republic*, p. 149.

** Ibid., p. 115.

*** Ibid., p. 127.

reality Berle notes that old private enterprise is impossible under modern capitalism. The giant corporations and banks have clearly outgrown the private framework and drive capitalism to new social forms. Big business can exist and function only with constant and all-round intervention of the state in the economy. For Marxists this is state-monopoly capitalism in which all the objective material prerequisites of socialism have formed. For Berle it is the "American Economic Republic", almost an ideally organised society.

In the last book Berle describes in greater detail and more concretely the economic functions of the state in the U.S.A. He proposes a concept of "transcendental margin".

This concept is not so much economic as it is ethical and arises from the "value system" of the Western (or rather exclusively American) civilisation. It is a question of man's and society's readiness to go beyond the limits (hence, transcendental) of immediate material interests and pursue ideal, humane aims. The word "margin" has a rather economic shade since it expresses, in a certain sense, the reserve of material wealth, the national income which is created in society and which may be used for social purposes for motives unconnected with profit or the prospect for profit. Berle himself offers the following definition: "The transcendental margin is the product of a value system that causes effort and expenditure beyond that calculated as conducive to the personal advantage of an individual or his immediate family group."* In another place he writes: "To grow

* Adolf A. Berle, Jr., *The American Economic Republic*, p. 202.

and become more productive, an economic system must devote a substantial portion of its resource and production to achieve ends transcending the calculation of individual material advantage. This is the 'transcendental margin'."*

Berle opposes unselfish (transcendental) motives to mercenary (utilitarian) motives. In this sense he follows the important trend of social ideas taking shape in the U.S.A. over a period of almost 100 years; in political economy this development has manifested itself most completely in institutionalism. But here, too, he is true to himself and strips these ideas of all elements of social protest. Berle's idealist constructions, which at times smack of theology, are a rather coarse praise of American capitalism.

Berle discusses at great length the role of so-called "Protestant ethics" in the development of the U.S.A. This ethics, as he writes, happily combines industry, thrift and a striving for personal well-being and enrichment with active social responsibility. The "Protestant ethics" which originated with the Pilgrim Fathers who came over from the British Isles in 1620 has subsequently absorbed the best altruistic elements of the Catholic, Judaist and other ethics. Manifesting itself in the large scope of private charity of the rich, in the readiness of the entire population to pay taxes for social needs and in the development of social security this ethics has now resulted, according to Berle, in the "welfare state" in the U.S.A.

Berle does not concern himself with the material foundation of the "Protestant ethics". To

---

* Ibid., p. 212.

him history appears as a process in the course of which the beneficent aspects of "Protestant ethics" prevailed over its "perversions" such as, he considers, excessive concentration of private wealth in the hands of billionaires at the end of the 19th and the beginning of the 20th centuries, the excessively brutal exploitation of workers in industry, etc. But all this is a thing of the past. "Protestant ethics" has fostered growth of the economy and this growth has created a surplus, a reserve for the "transcendental margin".

Although "transcendental margin" is for Berle an ethical, philosophical and almost intangible concept, he, nevertheless, tries to give it a quantitative evaluation. He does this in a very primitive manner. The monetary value of the "transcendental margin" is made up of the total sum of expenditures on private charity (9,000 million dollars in 1960) and 25 per cent of all the taxes levied for the federal and local budgets (about 32,000 million dollars). The latter figure is determined entirely arbitrarily as "expenditures essentially altruistic in nature".* To put it bluntly, they are state expenditures on education, public health, etc. According to Berle, in this part the taxes are but a legal formality covering the acts of good will which the members of society are always willing to perform without pursuing any selfish aims. Such is the more than unstable "statistical" basis of Berle's theory.

Generally, despite the author's erudition and impressive style of exposition, the theory of

* Adolf A. Berle, Jr., *The American Economic Republic*, p. 204.

"transcendental margin" is as unsubstantiated and declarative in character as his discourse on the soul and conscience of corporations. The peculiar feature of this theory is the cloyed complacency of an American bourgeois. The "welfare state" resting on the "transcendental margin" and modern forms of "Protestant ethics" is, according to Berle, the highest stage of social development which has for the most part been achieved in the U.S.A.

However, this theory, as also Berle's entire conception, reflects the real problems and contradictions of modern capitalism, American capitalism in the first place. It is in this sense that it is of some interest.

First, following the now usual economic doctrine Berle regards the expenditures in keeping with the "transcendental margin" as a stimulator of economic growth. The old private-capitalist economy is incapable of maintaining an "effective demand" (Berle uses this Keynesian expression) on an adequate level.

Secondly, here are manifested the same contradictions which were reflected in Galbraith's book *The Affluent Society*, namely, that at the modern stage of development of the human society the importance of the people's collective requirements and the collective forms of satisfying them sharply increases in contrast to the needs of individual consumption. Society simply cannot continue developing without very rapidly expanding the sphere of collective consumption. But capitalism "was not made" for this, and the solution of this problem is one of the tasks of socialism. But Berle is trying to assert with his theory of the "transcendental

margin" that American capitalism is successfully coping with it.

Thirdly, in his theory Berle is trying to find ideals which bourgeois sociology has been busily seeking in its attempt to oppose something to the lofty and humane ideals of socialism. Under the new conditions the ideals of private property and initiative, free enterprise and equal opportunities, which fromerly satisfied the bourgeoisie, demand reconsideration. These ideals justified the unlimited exploitation, enormous economic inequality and insatiable cupidity of the rich. Berle wants to replace them by the "good old" Christian ideals renovated in the spirit of the "welfare state" ideology.

Having begun with idealising the monopolistic corporation Berle ends with an unconditional apology for modern American capitalism and its social system. Actually the "American Economic Republic" is state-monopoly capitalism in its American form with all the social conflicts characteristic of it, with its sharp racial problem and its aggressive foreign policy.

PART III

COLIN CLARK'S THEORY OF ECONOMIC DEVELOPMENT OF CAPITALISM

By Y. Olsevich

Is modern capitalism capable of ensuring conditions for economic progress? This question is supposed to be answered by the conception of economic development elaborated by Colin Clark, a noted British economist.*

Among the modern bourgeois economists working on problems of development of capit-

---

* Colin Clark was born in England in 1905, in a family of a businessman. By education he is a chemist, having graduated from Oxford University where he was granted a degree in science. In 1928-29 he worked as assistant to Professor A. Young, noted economist. In 1936 C. Clark and Professor A. Pigou, another prominent economist, published the book *The Economic Condition of Great Britain.*

From 1931 to 1937 Clark taught statistics at Cambridge. At the end of the 1920s and the beginning of the 1930s he ran for Parliament on the Labour ticket.

From 1938 to 1952 Clark lived in Australia, first, teaching in Melbourne and Sidney, and then as an important official in provincial governing bodies (he was concerned with problems of labour and industry in Queensland and Western Australia). Since 1953 Clark has been Director of the Institute for Research in Agricultural Economics, Oxford. He is a Fellow of the Econometric Society.

alism Colin Clark and his followers (especially the well-known French economist Fourastié) take an independent stand both from the point of view of their theoretical views and of the economic policy they champion.

The economy of modern capitalism is characterised by rapid and very deep changes in technology, the productive forces and the entire social organisation of production. The branch structure of the economy is changing, there are changes in the structure of the main classes and social groups of the population, and the old forms of managing enterprises and of market relations are being replaced by new forms. The role of trade unions is being enhanced and the state intervention in the economy is increasing. The unevenness of economic development of the industrially developed countries and the struggle of the developing countries for economic independence are continuously changing the picture of world economy.

These and many other changes are evident and incontestable. It is much more difficult to answer the question of whether they are changing the intrinsic nature of modern capitalism-imperialism, the general trend of its development.

Incontrovertible facts attest that, despite all the turns and zigzags, the development of capitalist production proceeds along the line of monopolistic concentration and that the state machinery of the U.S.A., the leading capitalist country, as well as that of the other imperialist powers, is increasingly coalescing with finance capital and is expressing the interests of the latter both in internal and foreign policy.

Mention is not infrequently made of the con-

cessions the bourgeoisie of the industrial countries makes to the working people of their own countries and to the less developed countries. The bourgeoisie really does manoeuvre and now and then makes concessions and resorts to compromises. However, this is in no way due to any changes in the nature of capital, but rather to the new correlation of the world forces, the growing power of socialism in the first place. As for the nature of capitalism, it manifests itself in continuous attempts to recover its lost positions by threats, deceit, economic pressure and direct military aggression.

In the situation where the defenders of capitalism use any and all arguments to justify its protracted stay on the historical scene it is quite natural to expect the appearance of a conception asserting that the structural changes in capitalist economy create prerequisites for changes in the intrinsic nature of capitalism, for its transformation into a democratic, humane and peaceable social system. Such conceptions have appeared, one of them being Colin Clark's theory.

As a point of departure Clark uses the conception of the British economist Arthur Pigou, the author of *The Economics of Welfare*, a book very well known in the West.

It should be noted that Pigou was the direct successor to Alfred Marshall, founder of the well-known Cambridge school. John Keynes, also a pupil of Marshall, rose against this "orthodoxy", which was the external cause of the break-up of the Cambridge school. Incidentally Keynes chose Pigou as the main object of his attacks.

Clark lauds Pigou to the skies and upholds

the orthodox tradition of the Cambridge school, apparently laying claims to the role of a continuer of this tradition. He practically ignores Keynesianism as a theory which deals with but temporary economic processes; some of the propositions which Keynes regarded as having to do with long-period economic processes Clark characterises as "not being in accordance with the truth".

Clark's conception of long-period development essentially differs from the conceptions of growth suggested by Keynes' followers, for example, Roy Harrod and Evsey Domar. The fundamental difference between the Keynesian theories of economic growth and Clark's conception is that the former regard as of paramount importance the problem of "employment of the resources" and the problem of realisation which is indissolubly connected with it, while to Clark the main problem is that of the growth and distribution of the national income.

1. CONCEPTION OF "LONG-PERIOD TRADE CYCLES"

In his book *The Conditions of Economic Progress* Colin Clark accuses the bourgeois economists of always being late with their advice and of resembling the generals who were ready for the Crimean War in 1899, the Boer War in 1914 and World War I in 1939. He writes: "The world is now full of stalwarts telling us what to do in order to secure full employment, when in all probability the main issue in the next decade is not going to be full employment at all, or indeed any other question involving the analysis of short-run fluctuations,

but the long-run problems of the production and distribution of real income. How valuable this advocacy of full employment would have been if it had come in 1931! But many of the full-employment advocates of today were ardent diflationists at that time, all playing their part in making the depression deeper."*

In this book, however, Clark does not theoretically substantiate his conception of economic development. An attempt at such substantiation is found in his other book *The Economics of 1960*, the first edition of which was published in 1942 and the second edition in 1944. In this book he tries to give a long-term forecast of the development of the world economy. As the theoretical basis for this forecast Clark uses his own variant of the conception of "long-period trade cycles", according to which, in addition to the usual cycles of reproduction lasting about 8 years, there are cycles covering periods of 50-60 years. According to Clark, the existence of such cycles is due to the alternation of long "capital-hungry periods" with "capital-sated periods". "Capital-hungry periods" offer extensive opportunities for investment of capital, employment increases and labour power flows from agriculture into industry and services; the prices on agricultural produce increase in comparison with the prices on industrial commodities and services. During "capital-sated periods" there is a surplus of capital and chronic unemployment, while industrial production grows slowly. Clark notes the following "long-period cycles": 1850-75 ("capital-hungry period"),

* Colin Clark, *The Conditions of Economic Progress*, London, 1957, p. VIII (Foreword for the 1947 edition).

1875-1900 ("capital-sated period"), 1900-30 ("capital-hungry period"). According to Clark, 1930 marked the beginning of another "capital-sated period" which was supposed to last until 1955, but was interrupted by the outbreak of World War II.* To substantiate this conception, Clark refers to the data on the dynamics of the internal and foreign capital investments and to the movement of the interest rates.

Proceeding from this conception Clark made his basic forecast which he did not renounce even after the end of the war. He asserted that the post-war period of 1945-60 would be a "capital-hungry period" and would be followed by a new turn. He characterised the situation of 1945-60 as follows:

> 1. Large international capital movements. 2. Full employment. 3. Great expansion of the volume of world trade. 4. Outflow of labour from primary into secondary and tertiary industries at a higher rate than before. 5. Improvement of the terms of trade in favour of primary production.**

Clark's theory of economic development is based not on one conception, but on a combination of two conceptions: the conception of "long-period trade cycles" and the conception of secular structural changes in the aggregate product and employment, first from agriculture to industry and then from industry to the serv-

* Colin Clark, *The Economics of 1960,* London, 1944, p. 102.

** Ibid., p. 89.

ice sphere.* A combined analysis of the various phases of a "long-period trade cycle" and the different stages in the structural evolution of the economies of various countries creates, according to this theory, a basis for a long-term forecast of capitalist economy.

The conception of "long-period trade cycles" is plausible only outwardly. Clark does not answer the main question which inevitably arises upon examination of any theory of cyclic development, namely: what underlies the alternation of the "capital-hungry" and "capital-sated" periods and what determines the duration of these periods?**

To construct his hypothesis Clark made use of the fact that the successive cycles of capitalist reproduction occur under historically changing concrete conditions. Thus the long and complicated processes connected with the mastery of new markets, with the technical revolution, the perfection of the means of communication and with different wars exerted a strong influence on the actual economic cycles in the last century. The transition to imperialism,

---

* The conception of structural changes is examined in detail below.

** S. Kuznets, noted American bourgeois economist, adheres to the position of twenty-year cycles in the movement of capital investments. He tries to explain these cycles on the basis of the "principle of acceleration". With fast rates of increase in output the capital investments allegedly increase still faster, the average capital capacity of production increases and there is a shortage of capital; with a slowing of the rates of increase in production the capital investments decrease still more and the average capital capacity of production also decreases, revealing a surplus of capital. However, this "theory" is also unable to prove even the fact that such cycles exist.

the general crisis of capitalism, the First and Second world wars, the development of state-monopoly capitalism, the formation of the world socialist system, the collapse of the colonial system of imperialism, and the scientific and technical revolution of the middle of the 20th century—all these deeply affected the development of the cycles of capitalist reproduction.

The economic cycles which developed under pre-monopoly capitalism and even in the beginning of the epoch of imperialism yielded a relatively large increase in capital investments compared with the cycles occurring during the period between the two world wars. It is perfectly clear, however, that such changes do not justify Clark's attempts to demonstrate the existence of "long-period trade cycles". Clark one-sidedly selected indices and countries so that they may not contradict his initial conception. Objectively, however, the conception of "long-period trade cycles" is intended to hide the fact that the period of imperialism and especially the period of the general crisis of capitalism are attended with an aggravation of the contradictions of capitalist reproduction.

This aggravation does not always manifest itself directly, in the form of overproduction of goods, underloading of capacities and unemployment. The deepening of the contradictions of reproduction is no less eloquently attested by the forced increase in the state "regulation" of the economy, the elaboration of various programmes of state capital investments, purchases, export stimulation, restrictions, etc., aimed against the danger of mass overproduction.

Clark's inability to take into account the growing contradictions in capitalist reproduction pre-

determined the failure of some of his forecasts for 1945-60. In a number of countries, the U.S.A. in the first place, instead of full employment during the post-war period, chronic unemployment increased, even if with interruptions, prices on manufactured goods and services continued to rise relative to the prices on agricultural produce.

The post-war period proved to be one of intensive investment as the result of the reorganisation of the economy, the militarisation of the economy and the beginning of the scientific and technical revolution. The surplus of capital, the existence of which Clark takes for a sign of absolute saturation of the requirements in capital investments, is but a manifestation of considerable aggravation of the main problem of capitalist reproduction—the problem of realisation.

Clark's variant of the conception of "long-period trade cycles" has been adopted by some British economists who are working out economic forecasts for medium and long periods.

It was on this conception that the British economist B. M. Deakin based his forecast for the economy of Great Britain for 1960-70.* Following Clark, Deakin notes the following phases of the long-period trade cycles which allegedly occured during the last 100 years: 1850-75—expansionist phase, 1875-1900—capital-sated period, 1900-29—expansionist phase, 1930-39—capital-sated period interrupted by the war, 1945-61—expansionist phase continuing to date. Deakin writes: "On empirical data the 1914 to 1918 war can be seen to have added about five years to the concurrent expansionist phase, and it seems

* *Europe's Future in Figures*, Amsterdam, 1962.

likely that the much longer and more destructive Second World War has had the effect of shortening by at least ten years the concurrent negative, capital-sated half-cycle. To allow this assumption is to postulate that in theory and in the light of experience the current phase of capital hunger will last until about 1970. This broad forecast of cyclical trends may be expected to vary in direct proportion to the severity of the economic effects of war on the major industrialised countries."*

That the turn to the waning phase will occur about 1970 Deakin has hardly any doubts. The whole problem is whether it may not occur sooner since the war did not equally affect the economy of the different capitalist countries which are all interrelated in the system of world economy. Particularly important in this respect are the prospects of the U.S. economy. "Due to the interrelatedness of the world economy and the economic power and world trade influence of the United States, it has been necessary to consider whether the long-term cycle is likely to reverse prematurely in the U.S.A. and swing the world economy into the negative half-cycle before 1970."**

Deakin pins his hopes on the fact that, although the U.S. did not experience the destructive effects of the war, the latter nevertheless led to an increase in the economic role of the state and in the propensity to consume. These are the two "powerful demand-support factors" which, according to Deakin, are able to maintain the rising tendency in the economy

* *Europe's Future in Figures*, p. 197.
** Ibid., p. 199.

of the U.S.A. Deakin's general conclusion is as follows: "The long-term cycle theory and its applications ... lead to the conclusion that the United Kingdom, together with other major trade related Western economies, is passing through the latter part of an expansionary ... (capital-hungry) half-cycle. A decline into the succeeding negative capital-sated half-cycle is unlikely ... to occur before 1970, though some levelling off as the top of the cycle is attained is likely to occur about that time or perhaps, in some economies, a little earlier."*

Thus the conception of "long-period trade cycles" has, as it were, two aspects. It is used, on the one hand, for making forecasts that take into account the continuously increasing contradictions of reproduction, and, on the other hand, for an apologetic, "technological" interpretation of these contradictions.

The conception of "long-period trade cycles" was clearly anti-Keynesian; the Keynesian theory proceeds, as is well known, from the danger not of a cyclic, but of a chronic surplus of capital allegedly conditioned primarily by psychologic factors. Clark considers the attempts to use Keynesianism as a basis for a long-term economic policy to be a serious threat to the prospects of post-war development of capitalism.

Clark emphasises that the essence of the Keynesian theory and policy was expressed by Keynes' well-known aphorism: "In the long run we are all dead." Such a theory and policy do not suit the optimistically-minded Clark.

Clark writes: "If we get into the state of mind

---

* *Europe's Future in Figures*, p. 199.

which holds that the provision of additional employment in one's own country is the one thing that matters (a pardonable aberration in the depth of a depression, but a terribly false foundation for a general theory of economics), our theory of public finance is that government expenditure should be as large as possible, that the objects of expenditure do not matter, that we should finance as much expenditure as we can by loan, and that taxes should be judged solely by their effects upon current employment, ignoring equity, the welfare of consumers, and the effect of taxation upon the long-run productivity of the community. Worse still, our theory of International Trade degenerates into a base policy of 'exporting unemployment' by restricting imports and assisting exports by all means."*

However, Clark is not at all against state intervention in the economy of the country; he wants, by taking advantage of the favourable post-war economic situation, to make this intervention, both internally and in foreign economic relations, answer the purpose of "improving" and supporting capitalism in its economic competition with the socialist system, which, according to Clark, would help to safeguard the deeper and more lasting interests of the bourgeoisie.

In accordance with this the tasks of economic science consist, as Clark sees them, in helping to produce an abundance of goods and services, achieve a just distribution of the national income, steady the economic fluctuations, es-

* Colin Clark, *The Conditions of Economic Progress*, p. VIII.

tablish a secure life for the people and increase their leisure. Clark opposes the economists who hold that movement in one direction is possible only to the detriment of movement in another direction. Clark believes that capitalism "can move simultaneously in the direction of a greater production of goods and services, greater equality of distribution and a steadying of economic fluctuations."* But even the rosy idyll of economic development pictured by our author cannot do without contradictions. The increase in production contradicts, in his opinion, the striving for leisure and economic security. In this case the choice is up to the political power which regulates the rates and direction of the economic progress.

This dubious conception of economic growth formed, for example, the basis of the Report of the Committee on Economic Policy of the Chamber of Commerce of the United States (composed mainly of the biggest industrial and financial bosses). The authors of the Report try to represent the problem of the rates of economic development under capitalism as one of free choice. They write: "We are not at liberty to choose a particular rate of growth, say 5 per cent, unless we are prepared to impose choices between work and leisure, consumption and saving; unless we are willing to interfere with the market mechanism and with our political system."**

The authors of the Report explain to Americans that 2-3 per cent a year is precisely the rate of growth at which they prefer to stop.

---

* Ibid., p. 7.

** *The Promise of Economic Growth. Prospects, Costs, Conditions,* Washington, 1960, p. 52.

Thus the only serious problems of economic development of capitalism are, according to Clark, a choice between an increase in the production of goods, on the one hand, and an increase in leisure and economic security for "individuals and groups", on the other.

Abstractly we could, of course, conceive a producer of goods, say, a farmer or craftsman, who after working for about 8 hours wonders whether he should work an hour or two more or rather rest and take some recreation. But we cannot in this way approach the problem of what determines the volume of production in a country and the rate of its growth. In the U.S.A., for example, where there is a vast army of unemployed a number of progressive American economists justly believe that precisely a further reduction of the working hours would make for an additional demand for labour power and would decrease unemployment (without curtailing the volume of production). In the capitalist world where there are enormous resources of unemployed labour power it is absolutely groundless to assert that the leisure of the working people is an alternative to the increase in the volume of production. The contrary is rather the case—the restricted capacity of the market simultaneously holds back the increase in the volume of production and hinders the potential resources of labour time from being fully utilised.

Clark's book *The Conditions of Economic Progress* differs considerably from the works of most bourgeois economists. Very little space in it is devoted to abstract theoretical discourse; instead, it is full of statistical calculations. This is a reaction to the crash of the bourgeois economists' abstract theoretical constructions.

Clark sharply criticises the severance of theory from empirical statistical studies particularly manifest in the works of the League of Nations economists on the eve of World War II. By his general methodology Clark is an econometricist in the broad sense of the term implied by the founders of this trend. According to them econometrics is a combination of economic theory, economic statistics and mathematics. In the case of Clark the statistical aspect quantitatively prevails. But this is perhaps not the main difference between the methodology of Clark and his followers and the methodology of the Keynesians (the latter include, as is well known, many econometricists, although Keynes himself was very sceptical of the emerging econometric trend). The main thing is that the Keynesian theoreticians of economic development lay the principal stress on psychological factors, whereas Clark and his adherents, while paying generous tribute to subjective idealism, devote their main attention to technological factors. They try to substantiate their "laws" of development by narrow technical factors and proportions. The common aspect of both groups is their striving to ignore the actual economic laws and relations of modern capitalism.

Clark approaches the analysis of factual material with ready-made erroneous ideas of the national income, capital, etc. Moreover, in his statistical analysis he cannot resist the temptation (as will be shown below) of a one-sided selection of factual material and its preconceived interpretation. Small wonder that as a result of such "methods" the picture of world economic development came out not only one-sided and superficial, but also misrepresenting the real

state of affairs. Clark's main method of investigation is historical and international comparisons of economic indices. Even if such comparisons are correctly made methodologically, it is necessary to have a clear idea of what conclusions must and must not be drawn from these comparisons.First, it is entirely wrong to regard the changes in the structure of employment and in the rates of rise in labour productivity which occurred in industrial countries as they moved from pre-monopoly capitalism to imperialism as typical of the future development of the entire human society. Secondly, it is impermissible to regard the imperialist countries and the developing countries as states of the same type, but only at different stages of economic progress, since this amounts to ignoring the indisputable fact that these countries formed (and are still forming) opposite poles in the system of imperialism with its colonial oppression, financial strangulation by a handful of imperialist powers of the majority of nations. It should be remembered that in the capitalist world the economic development of one group of countries was carried out not merely side by side with, but at the expense of the other group. Under such conditions comparison cannot serve as the basis for the conclusions on the future development of the economically backward countries, which are drawn by Clark.

Thus the fundamental error of these comparisons is that Clark confines himself to purely external, quantitative signs. He takes no interest in the underlying factors and qualitative characteristics the study of which alone makes possible any conclusion on the direction which economic development, in general, and that of

the underdeveloped countries, in particular, will take.

In his work Clark makes extensive use of the methods of "classical" econometrics. In Clark's conception a considerable role is played, in particular, by a comparison of average and "marginal" expenditures. The idea is that in cases of "diminishing returns" the "marginal" expenditures are higher than the average and in cases of "increasing returns" they are lower than the average.

If we put objective scientific content into the concept of "marginal" expenditures (i.e., base it on the labour theory of value, according to which the value of goods is determined by the expenditure of socially necessary labour time) and not the content that is put into it by bourgeois theoreticians, this concept may prove helpful in analysing the theoretical, as well as certain concrete economic problems, particularly the changes in the productivity of labour and the cost of production, capital capacity, market demand, etc.*

---

* The Marxist-Leninist political economy makes wide use of the combination of mean and marginal values in analysing economic phenomena both in time and in space. Thus according to the Marxist labour theory of value, the decisive role in determining the value of the reserve of goods produced over a long period of time (buildings, machinery, etc.) is played not by the past actual expenditures of labour, but by the expenditures socially necessary for producing a unit of the given goods under modern conditions. The social cost of production of the extractive industry and agriculture is determined (the demand and supply being equal) by the expenditure of labour in the extreme, least productive sectors. The market value of goods is regulated by the expenditure of labour at enterprises of average efficiency provided

2. COLIN CLARK'S "STRUCTURAL" CONCEPTION OF ECONOMIC DEVELOPMENT

Clark's conception of economic development is supposed to confirm his social philosophy, namely, that with appropriate state intervention capitalism will move in the direction of increasing abundance and equalisation of incomes. Concisely his conception of economic development may be stated as follows: Production is divided into three sectors—agriculture, industry and services. Productivity tends to rise more slowly in agriculture and services than in industry.

With increasing incomes of the population the structure of the demand changes: first, the share of the demand for agricultural produce decreases and that for industry increases, then the share of the industry also diminishes and because of this the share of services increases. The different rates of increase in productivity and the change in the structure of the demand cause changes in the structure of production and employment. Every country goes through the following stages of development: agrarian (the productivity in the country rises slowly), industrial (the increase in productivity reaches its maximum) and predominant expansion of the sphere of services (the rates of increase in productivity slow down again). In the last stage the per capita production increases comparatively slowly, but then small enterprise

---

the supply and demand coincide over a long period of time. If, however, there is a chronic surplus of goods, the regulating influence on value is exerted by "marginal" (in the given case the most efficient) enterprises.

flourishes, and the incomes of labour, capital and landowners become spontaneously equalised.*

Clark thus conceives "natural" economic development, provided the state succeeds in paralysing the activities of the monopolies "aimed at curtailing production".

Clark considers the increase in real per capita income the main index "of economic progress". According to Clark, real income is created in three spheres of activity: "Primary industry", "manufacture" and "service industry". "Primary industry" includes cropping, stock raising, forestry and fishing, i.e., the branches which, according to Clark, depend on immediate and direct utilisation of the natural resources. As for the extractive industry, Clark includes it in some cases in the "primary industry" and in others—in manufacture, making the reservation that this branch represents an "independent category". He defines manufacture as "the continuous transformation, on a large scale, of raw materials into transportable products".

It is clear that many branches of production, which together with services are unified in the "service industry", remain outside this classification. They include construction, transport and

---

* We have qualified Clark's variety of bourgeois theory of economic development as "structural" not only on the basis of the conception of structural changes, but also because of the author's own terminology. Clark wrote: "Movements showing a sustained tendency over a long period are defined as secular, long-period or structural phenomena.... It appears that the word 'structural' might have preference, because it draws attention to the more deep-seated changes in the structure of the economy; which changes, and not the mere lapse of time, are the determinants of long-period trends." (Colin Clark, *The Economics of 1960*, p. 88.)

communications, trade and finance, the professions, government administration and defence, personal services and handicrafts.*

The division of "production" into three sectors is based on the conception of national income, which originated with Garnier and Lauderdale, and which was consummated in the works of the "neo-classics" A. Marshall and A. Pigou. This conception also serves as the initial basis for all of Clark's statistical calculations and theoretical conclusions drawn from them. According to Clark, the real national income is the current production of goods and services in each community, measured in a certain way. The national income thereby includes all possible incomes, and it is supposed that the national income is created not only in material production, as is actually the case, but also by any form of activity, including that in the sphere of trade, finance, the state machinery, and that it is ... not only by people, but also by things ... labour, the land and even ... thus the sum of the annual ... includes the value of the ... even if they are ... writes: "In an ... important ...

... the last stag... comparatively slow...

---

the supply and demand coincide over a long p... time. If, however, there is a chronic surplus of g... the regulating influence on value is exerted by "margi... (in the given case the most efficient) enterprises.

value of similar dwellings."* The "service" of furniture and other durable consumption goods are not included not as a matter of principle, but only because "a line has to be drawn somewhere",** else the national income would have to include the "service" of every pot and pan.

Such a definition of the national income has a double implication. First, modern bourgeois economists, using Say's theory of "the three factors of production", are trying to prove that the national income is created in equal measure by labour, land and capital.

Second, they call any kind of activity "productive" labour, trying to obliterate the line between the production and services spheres, between production and consumption.

Clark writes: "It was an outstanding error on Adam Smith's part to attempt to exclude services from his definition of the real national product." Clark is much closer to the ideas of the Arab historian and philosopher Ibn Khaldun, who lived four centuries before Adam Smith and who "included in his definition of production medical service, education, music".*** Clark ought to have paid more attention to the other part of the statement of the Arab sage who did not include in the conception of "production" the "activities based on... exploitation or ignorance", including the activities of "public servants who receive their shares from public receipts vitiated by injustice, oppression and fiscal pressure".

Paul Studenski, noted bourgeois specialist in

---

* Colin Clark, *The Conditions of Economic Progress*, p. 75.

** Ibid., pp. 12, 13.

*** Ibid., p. 6.

communications, trade and finance, the professions, government administration and defence, personal services and handicrafts.*

The division of "production" into three sectors is based on the conception of national income, which originated with Garnier and Lauderdale, and which was consummated in the works of the "neo-classics" A. Marshall and A. Pigou. This conception also serves as the initial basis for all of Clark's statistical calculations and theoretical conclusions drawn from them. According to Clark, the real national income is the current production of goods and services in each community, measured in a certain way. The national income thereby includes all possible incomes, and it is supposed that the national income is created not only in material production, as is actually the case, but also by any form of activity, including that in the sphere of trade, finance, the state machinery, and that it is created not only by people, but also by things (instruments of labour, the land and even consumer goods). Thus the sum of the annual national income also includes the value of the "service" rendered by houses even if they are occupied by their owners. Clark writes: "In an industrial community, the most important 'unsold' element in national income is the owner-occupied house, to which a value can be fairly closely imputed from the commercial rental

* That no scientific principles underlie this classification of branches is also confirmed by the fact that Clark himself recarved this "classification". Thus in *The Economics of 1960* he unconditionally ascribed construction, mining and electric power production to secondary branches.

value of similar dwellings."* The "service" of furniture and other durable consumption goods are not included not as a matter of principle, but only because "a line has to be drawn somewhere",** else the national income would have to include the "service" of every pot and pan.

Such a definition of the national income has a double implication. First, modern bourgeois economists, using Say's theory of "the three factors of production", are trying to prove that the national income is created in equal measure by labour, land and capital.

Second, they call any kind of activity "productive" labour, trying to obliterate the line between the production and services spheres, between production and consumption.

Clark writes: "It was an outstanding error on Adam Smith's part to attempt to exclude services from his definition of the real national product." Clark is much closer to the ideas of the Arab historian and philosopher Ibn Khaldun, who lived four centuries before Adam Smith and who "included in his definition of production medical service, education, music".*** Clark ought to have paid more attention to the other part of the statement of the Arab sage who did not include in the conception of "production" the "activities based on... exploitation or ignorance", including the activities of "public servants who receive their shares from public receipts vitiated by injustice, oppression and fiscal pressure".

Paul Studenski, noted bourgeois specialist in

---

* Colin Clark, *The Conditions of Economic Progress*, p. 75.

** Ibid., pp. 12, 13.

*** Ibid., p. 6.

problems of national income, said for Clark what the latter did not dare say himself: "Although he never said so, Clark's approach implied that all government services were final products."* Any policeman is, according to the methods of the "socialist" Clark, a creator of the national income.**

The vulgarisation of the concept of national income in Say's "triune formula" consists in its perverted answer to the question: who, what factors create the national income? The Marshall-Pigou formula, which includes Say's formula, perverts the answer to another question: where, in what sphere of activity is the national income produced? This formula not only disguises the class nature of production of the national income under capitalism, but also misrepresents the extent of the national income.

It is particularly important to take this last factor into account when considering the conception of Clark and his followers. In the first place, Clark's conception of the national income sharply exaggerates the extent of the national income in general and in the countries with an

---

* Paul Studenski, *The Income of Nations. Theory, Measurement and Analysis: Past and Present,* New York, 1958, p. 203.

** Emile James, French bourgeois historian of economic thought, notes that even Clark's bourgeois colleagues were somewhat shocked at the doubtful characters which were included in the "service industry" (the "third sector") and thus became "income producers". James writes: "The critics of Clark's theory often observed that this sector is devoid of homogeneity, that among the people whose activities are connected with this sector one may meet a monk and a prostitute...." (Emile James, *The History of Economic Thought of the 20th Century (Istoriya ekonomicheskoi mysli 20 veka),* Foreign Languages Publishing House, 1959, p. 491.)

inflated "services" sphere in particular; second, it distorts the structure of the national income; third, it disguises its real movement.

If, for example, stagnation is observed in the sphere of material production of a country, but the "services" sphere expands, then, according to Clark, there is an increase in the national income, whereas actually it has not changed. The "convenience" of this conception is that the increase in parasitic consumption can be passed for an increase in production. According to the calculations of the Soviet economists Paltsev and Kolganov, the national income computed by official bourgeois statistics using A. Marshall and A. Pigou's recipes is 25-30 per cent higher than the actual national income.* Such overstatement is not accidental. In the U.S.A., as Clark himself observes, the official data on the national income include all government expenditures because "... there might be Congressional repercussions if any revisions in the methods of compiling figures of national income were to bring about an apparent reduction in the total".** It seems that the modern economists of the U.S.A., who exaggerate the data on the national income, do so on strict orders.***

---

* See A. Paltsev, *Natsionalny dokhod pri kapitalisme (The National Income under Capitalism)*, Gospolitizdat, Moscow, 1954, p. 29.

** Colin Clark, *The Conditions of Economic Progress*, p. 21.

*** Similar methods are also used by the bourgeois economists of the U.N. The statistics of the national income proceed from the fact that the national income is produced in eleven "branches of economic activity". These are: 1. agriculture, forestry and fishing; 2. mining and quarrying; 3. manufacturing; 4. construction; 5. elec-

Since it is entirely illogical to include the services sphere in production, Clark's classification of the branches of production in three groups collapses. This classification is so obviously artificial that it has already for many years been an object of attacks even by bourgeois economists.

In point of fact, Clark has included in the "service industry" branches belonging to material production (transport, construction, utilities) and those which for the greater part or entirely belong to the services sphere (trade, finance and the state machinery). But even to bourgeois economists it seems doubtful that, for example, the building industry and restaurants have more in common than construction and industry.

Criticising Clark's classification P. Studenski suggests his own, namely: 1. agriculture including forestry and fishing; 2. industry and trade including also construction, utilities, transportation, communications, banking, insurance and real estate; 3. services including services of dwellings, services of government, and miscellaneous other services.* But such classification is also untenable since it likewise proceeds from an unscientific conception of the national income.

The authors of this classification assert that it is based on a single principle, namely, *production*

---

tricity, gas, water and sanitary sources; 6. transportation, storage and communications; 7. wholesale and retail trade; 8. banking, insurance and real estate; 9. ownership of dwellings; 10. public administration and defence; 11. other services—domestics, professions, trades, hotels, restaurants, etc. (P. Studenski, op. cit., p. 203.)

* Paul Studenski, op. cit., p. 233.

of national income in different spheres of social activity. Actually such classification puts on the same level the branches of material production which really create the national income and branches of the services sphere which exists at the expense of redistribution of the income. Of course, the line between the production and services spheres is very mobile. Many production processes continue and end in the services sphere and vice versa so that statistically it is at times difficult to draw a line. Some forms of activity formerly far removed from production are now gradually becoming its inalienable part (this applies particularly to a number of branches of applied science, the system of information, etc.). Some branches of the services sphere are closely linked with production and directly affect it; these include education and occupational training of personnel, public health, finance and government administration. It is important to take into account that the very organisation of activity in these spheres and the character and degree of their influence on material production depend decisively on the economic basis of society, i.e., the system of social relations within the material production itself. But when the bourgeois economists identify different spheres of appropriation of the national income with the spheres of its production they thereby deprive the state policy of the developing countries of a correct orientation in one of the most important questions, namely: in what spheres is the national wealth created and what branches require the quickest possible expansion? In all fairness it must be observed that the policy of many developing countries ignores the conception of national income under consideration. Decisive

importance in these countries is being attached to developing the branches of material production.

3. LAWS OF "INCREASING" AND "DIMINISHING" RETURNS

Clark's arbitrary classification of production and services spheres in three divisions is not at all accidental. In his opinion, each of the three aforementioned branches develops in accordance with its own special laws. Clark writes: "There are some quite wide and important differences between the general economic laws under which the three divisions operate."*

What are these laws? On the present level of scientific and technical knowledge, Clark explains, "primary industry" is in general governed by the "law of diminishing returns". As for industrial production, it operates under the "law of increasing returns".

This second law plays the central part in Clark's conception of economic growth. Clark writes: "Increasing returns is the state of affairs in which the net quantity of real product obtained per unit of effort expended increases *as a consequence* of an increased scale of production (in one business, or in any specified group of business). This definition, it will be seen, excludes the effects of improvements due to better scientific knowledge, better education, better organisation, better use of national resources or any such cause; except where such scientific knowledge, etc., itself became available, or became capable of application, as a

---

* Colin Clark, *The Conditions of Economic Progress*, p. 490.

consequence of the increased scale of production."*

The theory of "increasing returns" was brought to the fore after World War I by the bourgeois economist A. Young to explain Great Britain's lag behind the U.S.A. in labour productivity. Young tried to clear the British monopolies of the charge of impeding technical progress, unwillingness to invest capital within the country, insufficient enterprise and parasitism. He argued that with the same technical level, enterprise, etc., a larger population and a larger scale of production create wider opportunities for a division of labour and, consequently, for raising its productivity.

A. Young wrote: "First, the mechanism of increasing returns is not to be discerned adequately by observing the effects of variations in the size of an individual firm or of a particular industry, for the progressive division and specialisation of industries is an essential part of the process by which increasing returns are realised. What is required is that industrial operations be seen as an interrelated whole. Second, the securing of increasing returns depends upon the progressive division of labour, and the principal economics of the division of labour in its modern forms are the economics which are to be had by using labour in roundabout or indirect ways. Third, the division of labour depends upon the extent of the market, but the extent of the market also depends upon the division of labour. In this circumstance lies the possibility of economic progress, apart from the progress which comes as a result of the new knowledge which men

* Ibid., p. X.

are able to gain, whether in the pursuit of their economic or of their non-economic interests."*

Thus the level of productivity depends upon the division of labour and the volume of production, which in turn depend upon the extent of the market. As for the extent of the market, according to Young, it is determined by the population body.

It is obvious, however, that the extent of the market depends both on the country's population and the per capita income. The latter is to a decisive degree determined by the extent to which machinery is available to labour and by the employment of the population, i.e., by *economic* and not demographic factors. India, where the population is 2.4 times that of the U.S.A. and nine times that of Britain, has a domestic market (determined by the volume of the gross domestic product) which is about one-fifteenth that of the U.S.A. and less than half that of Britain.

As for the countries with about the same level of development of the productive forces, here, too, the extent of the *domestic* market, in so far as it depended upon the population, played no decisive role in the productivity of national labour. As a matter of fact, many West European countries with a comparatively small population have about the same level of labour productivity as the large European countries. The reason for it is that the economy of developed capitalist countries rests not only on the domestic, but also on the world market; as a rule, the smaller the country the more it depends on foreign trade.

Bourgeois economists who emphasise the difficulties of realisation, the relative narrowness

* Colin Clark, *The Conditions of Economic Progress*, pp. 343-44.

of the market, in the final analysis reduce the market problem to non-economic factors—psychological, technical and demographic. This is precisely what Young and Clark do, ignoring the fact that actually the market problems are conditioned by the capitalist relations of ownership, distribution and competition.

Historically, capitalism creates a market for itself by ruining the small producers and by seizing colonial markets. The growth of mature, developed capitalism is based mainly on the market it creates for itself in the process of accumulation of capital, on the deepening intra- and international division of labour and the growth of production and, especially unproductive consumption. The Marxist proposition on the relative narrowness of the capitalist market, which periodically results in absolute overproduction, underloading of production capacities, unemployment and a decline of production, has nothing in common with the theory of stagnation. This narrowness of the market does not stop the development but exerts an impeding, retarding influence on it since capitalism proves unable to utilise in full measure the productive forces which it has itself called to life. Else it "finds" application for them in the arms race and destructive wars.

According to Clark's calculations, when the output of some product in the U.S.A. and Great Britain is the same, labour productivity is 26 per cent higher in the U.S.A. than in Britain. Clark makes one more concession to facts. He supplements Young's proposition on the restrictive role of the numbers of the population in the development of production by a thesis about the restrictive role of monopoly and protectionism, but at

the same time treats these phenomena as an evil which can be coped with within the framework of state-monopoly capitalism.

But are there any laws of "diminishing" and "increasing" returns? In the first place it should be noted that the formulation of each of these "laws" contains two entirely heterogeneous and contradictory assertions. Clark's assertion that prolonged expansion of production (allegedly accompanied by a decrease in labour productivity in agriculture and an increase in the manufacturing industry) may be carried out in practice without any changes in the technology and organisation of production is unreal.

Any appreciable increase in the volume of production, both in an individual enterprise and in a whole industry, involves introduction of new machinery and technology, a deeper division of labour and a change in the organisation of production. Qualitative changes in the methods of production, and not just an increase in its volume, are the cause of the rise in labour productivity. This applies not only to industry, but also to agriculture.

Completely applicable to the "law of diminishing returns" is what Lenin wrote about its twin—the "law of diminishing fertility". In his work *The Agrarian Question and the Critics of Marx* Lenin noted: "In order to increase the quantity of capital invested in land to any considerable degree, new machinery must be *invented*, and there must be new methods of land cultivation, stock-breeding, transport of products, and so on and so forth. Of course, 'additional investments of labour and capital' may and do take place on a relatively small scale even when the technique of production has remained at the

same level. In such cases, the 'law of diminishing returns' is applicable *to a certain degree*, i.e., in the sense that the unchanged technique of production imposes relatively very narrow limits upon the investment of additional labour and capital. Consequently, instead of a universal law, we have an extremely relative 'law'—so relative, indeed, that it cannot be called a 'law', or even a cardinal specific feature of agriculture."*

But is it possible that the volume of production should increase despite the invariable technology and that it should be accompanied by a stagnation of or even a decrease in labour productivity? Such a situation may arise under conditions of small peasant production when the increase in the number of producers is attended with a breaking-up of the farms and brutal exploitation by large landowners, trade and industrial capital.

In general the dynamics of agricultural labour productivity is explained not at all by the operation of the "law of diminishing returns", but by the social and economic conditions of production, the monopoly of private landownership rendering capital investment in agriculture difficult. As landownership concentrates in the main capitalist countries directly and indirectly in the hands of monopolies and banks, agricultural enterprises enlarge, agricultural machinery is extensively introduced, labour productivity and the "returns" increase.

The difference between the development of large-scale capitalist production and small peasant holding crushed by triple oppression Clark passes for a "natural" difference. The incorrectness of such interpretation is attested even by

* Lenin, *Collected Works,* Vol. 5, p. 109.

the data cited by Clark himself. For example, where small producers are in considerable measure excluded and production is conducted on a capitalist basis the dynamics of labour productivity in agriculture do not essentially differ from those in industry.

*Average Annual Rates of Change in Output per Unit of Labour Input in the U.S.A. (per cent)**

Date	Farming	Mining	Manufacturing	Transportation	Electric Utilities
Before 1899	1.1	2.0	1.7	(3.0)	(1.7)
1899-1909	0.0	1.0	1.1	1.1	7.1
1909-1919	0.0	1.7	0.8	3.6	8.3
1919-1929	1.2	4.2	5.6	2.6	1.9
1929-1937	0.8	3.5	1.8	2.9	6.5
1937-1948	3.8	1.2	1.4	3.2	6.5
1948-1953	6.2	4.8	3.0	3.7	7.7

From 1870 to 1940 the productivity of U.S. agriculture increased an average of 1.6 per cent per annum, and from 1940 to 1953 at an annual rate of 6.3 per cent. From 1957 to 1962 the annual increase in output per one employed in the U.S.A. amounted to 5.1 per cent in the extractive industry and 3.3 per cent in the manufacturing industry. At the same time during the aforesaid period the increase in the volume of production in the manufacturing industry only slightly (20 per cent) exceeded the increase in productivity; in the extractive industry the volume of production did not increase at all and thus the increase in output resulted in an absolute curtailment of employment. In Great Britain the

* John W. Kendrick, *Productivity Trends in the United States*, Princeton, 1961, pp. 152-53.

average annual increase in farming output was 0.7 per cent from 1860 to 1930 and 4 per cent during the subsequent 20 years.

It would seem that the agriculture of the less developed countries of the capitalist world where labour productivity shows a tendency towards a decrease might serve as a reliable asylum for the "law of diminishing returns". But here too this tendency expresses the operation of factors which Clark does not even dare mention, namely, merciless exploitation by foreign capital, dwarf farms, feudal oppression within the countries, etc.

It must not be forgotten, for example, that Britain's industrial development was not only carried out through the plunder of India, but that British domination also hurled this country far back, destroyed its industry and depopulated its cities. Twenty-six million people starved to death in India between 1876 and 1900 alone.*

True, Clark is calling on the developed countries to help the backward nations to overcome the action of the "law of diminishing returns". He writes: "If... we decide to neglect our obvious duty, and do nothing to help the hungry countries obtain the transport, communications and fertilisers which they require, we can see what will happen."** But the real essence of the problem is not at all in the "law of diminishing returns". It is much simpler: the imperialist states must immediately and unconditionally return to the underdeveloped countries at least part of the wealth of which they robbed them.

Another assertion contained in the formula-

---

* D. Latifi, *India and U.S. Aid,* Bombay, 1960, p. 4.

** Colin Clark, *The Conditions of Economic Progress,* p. 324.

tions of the aforesaid "laws" is that the changes in labour productivity are conditioned by changes in the volume of production, and Clark is trying to establish a direct functional relation between these indices. He subscribes to the conclusions of the Dutch bourgeois economist Verdoorn that "increasing real product per man-hour is a function of aggregate real product, and that the level of the former is proportional to the square root of the latter".* It is true that under modern capitalism the limitation of the volume of production impedes the rise in labour productivity. However, there is no direct functional relation between these indices. The influence of the volume of production on labour productivity is mediated by technical progress in all its forms and manifestations, and this progress depends not only on the volume of production. It should be noted that Clark does not draw a clear line between the concepts of "productivity" and "returns"; from his statements it appears that increased returns always attest to a rise in productivity. But for modern capitalist production with its high overhead and chronic underloading of the production capacities the possibility of increasing the volume of production means a reduction in expenses per unit of output and, consequently, increased returns even if the labour productivity does not change.

While noting the relationship between the volume of production and productivity, it must be said that both are wholly governed by the laws of capitalism. Under conditions of a slow in-

---

* Colin Clark, *The Conditions of Economic Progress*, p. 356. In his new book *British Trade in the Common Market* (London, 1962) Clark writes that this coefficient is between the square and cubic roots.

crease in the volume of production the capitalists seek ways and means of cutting the costs and increasing the rates of profit, including the introduction of new machinery and raising the productivity of labour, which leads to an enormous increase in unemployment. As a result of an analysis of statistical material Clark is forced to draw the following conclusion: "We obtain the interesting result that ... increasing total output has a more beneficial effect upon output per man-hour than it had in the nineteenth century, but that for an industry to have a stationary total output, which probably meant a stationary level of output per man-hour in the nineteenth century, allowed a rise in output per man-hour at the rate of 15 per cent per decade in the period 1899-1929, 33 per cent per decade in the period 1929-1939."* These figures attest that under modern capitalism an increase in labour productivity may not be accompanied by an increase in the volume of production. Therefore, to absolutise the one-sided relation between the volume of production and labour productivity, as it is done by Clark, means to avoid analysis of the real laws of capitalist production and to replace it by a discourse on superficial correlations.

Under which of the two "laws"—increasing or diminishing returns—does productivity change in the sphere of the "service industry"? It turns out that it obeys both laws at the same time.

Whereas retail trade and transportation are characterised by operation of the "law of increasing returns", building and small crafts are

---

* Colin Clark, *The Conditions of Economic Progress*, p. 364.

governed by the opposite law. Clark substantiates this with regard to building as follows:

"Building appears to be a genuine 'Diminishing Returns' industry. The available supply of skill, both manual and managerial, is very limited, and cannot be rapidly enlarged, and therefore any expansion of the scale of the industry involves employing men of strength or skill below the previous average, and there appear to be no appreciable economics of large-scale organisation to off-set this."*

Clark arrives at the conclusion that on the whole productivity in the "service" sphere is rising much more slowly than in industry.

Actually, however, as regards transportation and building, the changes in labour productivity here do not essentially differ from the similar processes in the other branches of material production.

The dynamics of labour productivity in building have certain peculiarities compared with the manufacturing industry for a number of historico-relative reasons. However, this does not warrant the assertion that this branch operates under some special laws which govern the increase in labour productivity and by virtue of which labour productivity in the service sphere increases more slowly than in industry. Equal rates of increase in labour productivity in different branches of the economy over a certain period of time cannot be expected since scientific and technical progress takes place very unevenly, especially under conditions of the capitalist anarchy of production.

---

* Colin Clark, *The Conditions of Economic Progress*, pp. 381-82.

Although building made very rapid progress in the first half of the 20th century, it nevertheless lagged considerably behind the manufacturing industry and transportation. Actually the survivals of manufactory methods in building were eliminated in the main capitalist countries only after World War II, and building has become a branch of modern industry in the true sense of the word. Moreover, the two world wars have particularly deeply affected labour productivity in the building industry. This branch usually suffers the greatest losses in connection with the mobilisation of qualified labour power. Wars involve enormous destruction. In general a post-war situation is usually attended with a sharp increase in building, while the building industry has less qualified labour power and materials than it did before the war. The result is a considerable drop in labour productivity in building of a number of capitalist countries whose industry suffered a good deal of destruction. Thus in Great Britain labour productivity in building was about 30 per cent lower in 1947 than it had been in 1938-39 and was still about 15 per cent lower in 1956-57.* But such data do not in any way warrant the conclusion that building is governed by the "law of diminishing returns".

As for the services sphere, here an "increase in labour productivity" objectively means not an increase in the national product, but a reduction in social expenditures on its realisation and consumption. The criteria of production are therefore inapplicable to the services sphere.

---

* G. C. Allen, *British Industries and Their Organisation*, L., 1959, p. 310.

At the same time, as the practice of modern capitalism shows, then non-productive sphere is being rapidly "industrialised" and this leads to a reduction in the share of live and congealed labour per given volume of "service". Whereas the technical backwardness in the non-productive sphere formerly gave certain food for Clark's conception, the technical revolution in this sphere, the invention of powerful computing machines, automata in trade, and domestic appliances now take the wind out of the sails of the theoreticians of the "exceptionalism" of the services sphere.

In general, the development of the productive forces and technology, and the organisation of social labour create possibilities for enormous economy in live and congealed labour per unit of production or "service" both in the production and services spheres. If capitalism shows low rates of increase in the economy as a whole, despite the reverse tendencies in some of its branches, it is a result of the fettering influence of the capitalist conditions of production.

4. CHANGES IN THE DEMAND STRUCTURE

To determine the tendencies in the distribution of the population in the spheres of production, it is important to know not only the tendencies in the sphere of labour productivity, but also the changes in the demand structure.

According to Clark, the demand structure depends on the per capita income of the population: the higher this level, the greater is the part of the income spent on manufactured goods rel-

ative to agricultural produce and the greater the part spent on "services" relative to manufactured goods. Clark sees the explanation of the changes in the demand structure in the "increase in the welfare" of the population in the capitalist countries. According to his conception, agricultural production has already "sated the requirements" of the population in the developed capitalist countries; the requirements in a number of manufactured goods have similarly been "sated"; but the requirements in dwellings and "service" can never be "sated" and with the increase in the per capita income of the population the demand will concentrate in the "service industry" sector. Clark cites the following figures on the part of the family budgets spent on food in the U.S.A.

Level of Income per Head per Annum (I.U.S.)*	Proportion of Income Spent on Food
20	0.561
120	0.331
220	0.235
320	0.182
420	0.149
520	0.126
620	0.109
820	0.086
1020	0.071

From these figures Clark draws the conclusion: "The relationship deduced from family budgets between food consumption per head per annum and real income per head per annum may be represented approximately by the hyperbola

* The "conventional unit" equals the average purchasing power of one dollar in the U.S.A. during the 1925-34 decade.

$$y = \frac{81 \times}{X + 124}."$$

According to Clark, the consumption of food and fuel is expressed in the graph of "satiable" demand, while clothes and furniture show an accelerated increase in demand with the increase in income.

Clark notes a tendency towards a relative decrease in demand for energy and minerals: "The rate of increase in the demand for energy, like the rate of increase in the demand for certain basic minerals and textiles, is slowing down, relative to the rate of increase in world production."* Clark explains this by a number of factors, including the rise in fuel prices in the last 50 years. However, in the long run the index of fuel prices rises on the whole at the same rate as the general price index. The tendency towards a decrease in the share of fuel in the total national product is due essentially to the economy of fuel in the production of electric and thermal power, as well as of the power itself in industrial production. The decrease in the share of mineral and agricultural raw materials in the total output is likewise in no way due to the relative increase in its prices, as it is assumed by Clark. The demand for natural raw materials and fuel is in large measure determined by the changes in the structure of ultimate consumption. In the ultimate consumption, especially since the end of the war, the share of food and textiles has considerably decreased, while the

* Colin Clark, *The Conditions of Economic Progress*, p. 483. According to Clark, the maximum of fuel consumption required per unit of real national product was reached in Britain in 1880, in the U.S.A. in 1920 and in France in 1929.

share of consumer durables (engineering and building industry products), as well as that of services, has increased.

The inadequacy of Clark's conception with regard to the changes in the structure of consumption consists, in the first place, in that he identifies "satiation" of the effective demand with "satiation" of the absolute requirements. Actually, however, under capitalist conditions the increase in the effective demand is closely linked with the contradiction between labour and capital, with the class differentiation of the buyers. That under capitalist conditions "satiation" of the effective demand does not in any way mean satiation of the requirements of the population is easy to see from the example of consumption of agricultural produce by different groups of the population of the U.S.A.

According to George Wheeler, noted American economist, in the U.S.A. families with an income of 500 dollars and less consume 50 per cent less food than families with an income of 1,500-2,000 dollars and only 1/3-1/5 that consumed by families with an income of 5,000 dollars.*

The insufficiently stable effective demand and, in the final analysis, inadequate incomes of a considerable section of the population are the main hindrance to the increase in agricultural production in most capitalist countries. Additional factors in underdeveloped countries are backward semi-feudal relations in the countryside, lack of means for capital investments in agriculture and the associated industries producing machinery, fertilisers and chemical pest- and

---

* George Wheeler, *Disarmament and the American Economy,* New York, 1960, p. 49.

weed-killers, building irrigation systems and roads, producing electric power, etc.

According to Edouard Bonnefous, French economist, in the last 20 years the population of Asia has increased 35 per cent and production of food only 22 per cent; in Latin America the figures are respectively 58 and 48 per cent, and in Africa 46 and 44 per cent.* The "satiation" of the capitalist food market is an invariable concomitant of the starvation of hundreds of millions of working people. As Hernán Santa Cruz, Deputy Director-General of Food and Agriculture Organisation (FAO) stated in November 1962, between 300 million and 500 million people are starving and more than 1,000 million people are undernourished.**

Contrary to Clark's "functional" model (the structure of demand is a function of the per capita income and the structure of employment is a function of the structure of demand and productivity) reality contains deeper and more contradictory interrelations. The structure of effective demand expresses the totality of the social, economic and technological interrelations of capitalist production. Clark essentially only describes some of the external changes in demand without giving them a deep explanation.

The changes in the structure of the total effective demand under modern capitalism are due to: a) altered production requirements owing to the different rates of economic development of a number of countries, technical progress, changes in the capital capacity and material

---

* Edouard Bonnefous, *La terre et la faime des hommes,* Paris, 1960, p. 20.

** *Pravda,* November 28, 1962.

capacity of production; b) development of state-monopoly capitalism, enormous growth of militarism and the state apparatus, as well as an excessive inflation of the trade and financial sphere; c) changes in the conditions of the working people (for example, increased requirements in education, means of conveyance and communication, household goods, etc.).

These factors (and a number of others) form the content of the tendencies in the demand structure to which Clark at times gives but a superficial explanation.

* * *

Examining the problem of economic development and increase in labour productivity from the point of view of the resources of accumulation of capital Clark does not consider capital to be a determining or limiting factor in all cases. "Increases in industrial productivity are often (but not always) brought about by increased use of capital equipment of various kinds. It will not do, however, to claim that the whole world can be raised to a high standard of productivity merely by an abundant provision of capital. Often considerations of the extent of the market, transport costs and other factors would make the installation of certain equipment entirely uneconomic however easy it were to obtain the capital.

"We should not, however, go too far in this direction and deny that the availability of capital, or the price of capital equipment, has any bearing on the question of whether or not manufacturers install it."*

---

* Colin Clark, *The Conditions of Economic Progress*, p. 369.

Such an approach is quite understandable under the conditions of a chronic relative surplus of capital in imperialist states and it does not in principle differ from the approach of the Keynesians who racked their brains not over how to ensure accumulation, but over where to apply the accumulating capital. According to the Keynesians, in a developed capitalist society by virtue of a "growing propensity to save", on the one hand, and the decreasing "marginal efficiency of capital", on the other, a surplus of the saved part of the national income over its invested part is formed. This surplus the Keynesians recommend to liquidate by two main methods: by increasing non-productive consumption (through deficit financing of state expenditures) and by extending the possibilities of profitable capital investments in the economy (through lowering interest rates on bank credits). Thus the entire economic policy of Keynesianism proceeds from the assumption of a chronic danger of surplus capital formation.

Whereas Keynes' followers hold that capitalism is threatened by a chronic surplus of capital, Clark is more optimistic. Although the demand for capital depends on the capital-product ratio, which in recent decades has been decreasing, the supply of capital depends on the share of the savings in the national income, which (as Clark, contrary to the assertions of the Keynesians, holds) has in general remained invariable over a period of decades. That is why Clark arrives at the conclusion that in foreseeable future the excess of capital will be moderate.

Defining capital as "reproducible wealth used for purposes of production" and including the housing resources in it Clark offers his explana-

tion of the dynamics of the capital-product ratio. He suggests a number of propositions, including: a) economy on capital conditioned by large-scale production; b) increase in the intensity with which the means of conveyance and communications, the electric power stations, etc., are utilised; c) increase in the number of "capital saving inventions" compared with the "labour saving inventions"; d) relative reduction in expenses on housing and building in general in view of the relative rise in building costs.*

On the whole Clark is trying to ascribe the decrease in capital capacity to the increased efficiency of capitalism in the use of the productive forces. But modern capitalism is not at all using the productive forces effectively and the underloading of the production capacities is a factor of an increase in the capital capacity of production. A considerable share of production capacities remains unused even in those capitalist countries where the rates of economic growth are relatively high. For example, in West Germany because of incomplete utilisation of the production capacities in recent years the level of industrial production has been at least 20 per cent below its potentialities, which is equivalent to freezing almost 30,000 million marks of fixed capital.

The capital capacity of production is a very complex index reflecting the interaction of many contrary tendencies. The capital-product ratio, i.e., the correlation between the value of all the capital invested in production and the value of the social product has in recent decades

* Colin Clark, *The Conditions of Economic Progress*, pp. 569, 571.

been manifesting a certain tendency towards diminution. The capital-product ratio is, in particular, the lower, the faster the turnover of the material elements of capital and the higher the degree of exploitation of wage labour. The capital-product ratio diminishes in the measure in which the increase in labour productivity outstrips the increase in the fixed productive capital available per worker. This is due to the higher efficiency of modern technology as a result of scientific and technical progress and disguises the relatively low efficiency of the capitalist organisation of social production.

Another important reason for the tendency of the capital-product ratio to diminish is the shorter turnover of the material elements of capital as a result of accelerated technical progress, quicker moral depreciation of the equipment and decrease in the share of new capital construction. Cramped by narrow markets the monopolies in many branches of production try not so much to expand production as to cut expenses; they abstain from new construction and try to replace or modernise the operating equipment.

Analysing the factors determining the supply of capital Clark writes: "We are bound to conclude that we do not yet have sufficient accurate figures of net saving to make any thorough analysis of the factors which determine it.... Where we have moderately good information over a long period, as for the U.S., we find a general tendency for the ratio of net savings to net income to be comparatively constant over a long period."* And further: "That the proportion of

* Colin Clark, *The Conditions of Economic Progress*, pp. 609-10.

income saved should not change very much over a long period in which real income per head is increasing, is at any rate sufficient evidence to discount the crude 'stagnationist' theory" which in the U.S.A. may be called "Keynesian". According to Clark, such a theory is as clearly inapplicable in the long period as it is applicable in the short period.*

Since families with a higher income "save" a larger part of it, for the total share of the savings in the national income to remain constant, while the national income per capita increases, a general diminution must, in course of time, occur in the share of savings in individual incomes.

The statistical data cited by Clark indicate that a tendency towards a diminution in the share of the savings of the individual incomes was actually observed in the U.S.A. from 1901 to 1953. He therefore opposes the Keynesian conception of the "marginal propensity to save" and the Keynesian theory of chronic surplus of capital. Nor does Clark's theory take into consideration the increased role of the intra-corporation accumulations in the accumulating share of the national income, and, what is most important, evades the issue of the effect produced on accumulation of capital by such factors as monopoly domination and the contradictions of capitalist reproduction. Clark thus establishes two tendencies which are the exact opposites of those underlying the Keynesian conception, namely: instead of the tendency towards an increase in the capital-product ratio, a tendency towards its diminution, and instead of an increase in the

* Ibid., pp. 610-11.

share of the savings in individual incomes, a tendency towards a diminution in this share.

Actually, however, the efficiency of capital investments is increasing by virtue of the technical progress in production, transportation and communications, and the same amount of capital produces a higher yield in social product, and an increasingly smaller share of this social product has to be invested to maintain a definite rate of product growth. This creates additional difficulties and contradictions in realising the social product. State-monopoly capitalism is trying to resolve them by increasing unproductive consumption, primarily in the form of the arms race.

5. PROBLEM OF EMPLOYMENT AND DISTRIBUTION OF THE NATIONAL INCOME

According to Clark, the change in the structure of employment is determined by the interaction between the increase in labour productivity and the changes in the structure of the demand.

"The problem is, how the distribution of the labour force between these three [agriculture, industry, services.—*Ed.*] fields will be affected by increasing real income per head. The problem falls into two parts. As real income per head increases, it is quite clear that the *relative* demand for agricultural products falls all the time, and that the relative demand for manufacture first rises, and then falls in favour of services. . . . Given these expected changes in demand, we also have to take into account the efficiency with which the different industries will work to

supply them. Real product per man-hour in manufacture, for example, nearly always advances at a greater rate than real product per man-hour in other sectors of the economy. For that reason a *stationary* relative demand for manufactures would lead to a *decreasing* proportion of the labour force to be employed therein. Even when the relative demand for manufactures is increasing, we still generally expect, in the long run, a decreasing proportion of the labour force to be employed therein.

"Agriculture, in all but the most primitive societies, shows a fairly steady tendency towards increasing product per man-hour, though not usually as rapid as in manufacture; with the steadily decreasing relative demand, this can be counted on to produce a steadily declining agricultural proportion of the labour force.

"It is in the field of the service industries that there has been some doubt . . . while the efficiency of transport and commerce, in certain stages of a country's economic development, may advance even more rapidly than those of manufacture, yet nevertheless it seems to be the case that the demand for these services, at such times increases more rapidly still, and that therefore the proportion of the labour force occupied in them shows still a tendency to increase."*

Finding a rapid increase in the "service industries" under modern capitalism Clark applies this regularity to all the social systems. He "forgets" to mention that under capitalism the concrete content of the relative expansion of the "service industries" is entirely different from that

---

* Colin Clark, *The Conditions of Economic Progress*, pp. 493-95.

Table 1

*Industrial Distribution of Labour Force and Employers and Workers on Own Account as Percentage of Whole**

Year	Labour Force in mln. excl. women in agriculture	Production Sphere: Agriculture, Fishing and Forestry	Mining	Manufacture, Electricity and Gas	Construction	Transport and Communications	Total	Non-production Sphere: Commerce and Finance	Professions and Entertainment	Forces	Other Government Services	Private Domestic Service	Other Services	Total
U. S. A.														
1870	12.9	50.8	1.6	17.6	5.9	5.0	80.9	6.5	2.6	0.8		7.4	2.0	19.3
1920	41.6	27.6	3.0	26.4	5.3	5.3	72.5	11.8	5.5	2.2		4.1	3.9	27.5
1950	59.4	11.6	1.7	29.2	6.5	6.5	56.8	19.2	9.0	8.9		3.6	2.3	43.0
Britain														
1871	11.8	15.0	3.8	39.8	6.2	5.2	70.0	8.3	3.4	1.2	0.8	16.6		30.3
1921	19.4	6.7	7.3	38.7	4.1	8.1	64.9	13.2	3.7	1.6	4.8	7.0	4.5	34.8
1951	22.5	4.6	3.9	39.5	6.3	7.8	62.1	14.2	7.0	3.4	4.6	2.3	6.8	38.3
France														
1866	15.1	43.0	38			...	...	...	11					...
1921	17.8	28.5	1.8	34.8		7.5	72.6	12.7	4.3	2.4	3.2	4.8		27.4
1951	17.4	20.2	41.4			6.0	67.6	16.4	10.8			5.2		32.4

* Compiled from Clark's book "The Conditions of Economic Progress", pp. 513, 514, 520. The figures are rounded up to 0.1. The figures are not comparable for all periods.

under socialism, and is in fact, essentially opposed to it.

The accelerated growth of the non-productive sphere under conditions of modern capitalism is due to a number of factors, including the development of state-monopoly capitalism (army, police, state machinery), increase in parasitism and decay in economic life (advertising, inflated sales apparatus, duplication in scientific research, etc), deepening socialisation of the production process (various forms of accounting), changes in the requirements of the masses owing to the changes in the way of life (increased requirements in education and amenities).

To ascertain the real causes of the changes in the structure of employment, it is necessary to regroup the data in Clark's scheme, namely, to divide employment not into three, but into two spheres and to class transportation, communications and building in the production sphere.

According to the table (see p. 254), between 1920 and 1950 the share of people employed in the production sphere of the main capitalist countries diminished (21 per cent in the U.S.A., 4 per cent in Britain and 7 per cent in France), while that in the non-productive sphere has increased by virtue of a steep growth in the share of those employed in the bourgeois state machinery (army, police, officials) and in the sphere of commerce and finance. But such a change in the structure of employment hardly attests progress of the social system. Karl Marx wrote: "What a convenient arrangement it is that makes a factory girl sweat twelve hours in a factory, so that the factory proprietor, with a part of her unpaid labour, can take into his personal service her sister as maid, her brother

as groom and her cousin as soldier or policeman!"* This can also very well be used in describing a considerable part of the non-productive sphere under the conditions of modern capitalism.

In connection with Table 1 it is interesting to compare the data given therein with those on changes in the structure of employment in the U.S.S.R. (in per cent).**

	1940	1958	1963
People employed in:			
industry, building, transport and communications	28	38	42
agriculture	54	42	34
trade, public catering, procurement, material and technical supplies and marketing	5	5	6
branches of the non-productive sphere	12	16	18
including education, science and public health	6	10	13

The foregoing table shows that under the conditions of socialism the non-productive sphere develops mainly through the development of education, science and the public health services. As for the people employed in state and eco-

* Karl Marx, *Theories of Surplus-Value*, Moscow, 1963, p. 195.

** (Without students and servicemen) *Narodnoye khozaistvo SSSR v 1963 godu (The Economy of the U.S.S.R. in 1963)*, Gospolitizdat, 1964. Under socialism a much larger number of commercial employees is engaged in production operations than in capitalist countries where very large numbers of those employed in commerce are engaged in advertising or directly in selling goods.

nomic administration, from 1950 to 1963 their number decreased from 1.8 million to 1.3 million. It should also be noted that during the period indicated the number of people employed in the credit and insurance establishments of the U.S.S.R. remained almost unchanged, i.e., 300,000.

The expansion of the services sphere in the U.S.S.R. is wholly directed toward satisfying the needs of the working masses, whereas in the developed capitalist countries the lion's share of the increase in the services sphere goes to the bourgeois sections of the population.

The changes in the structure of employment engender changes in the correlation between the demand for and supply of various types of work, in the structure of unemployment and in the wage scales. Clark correctly notes the various quantitative changes, but incorrectly interprets their motives. He points out that the considerable increase in the demand for hired labour in the "services sphere" in the U.S.A. and other countries was accompanied not by a rise, but by a fall in relative wages in this sphere because of the enormous supply of labour; he explains it, however, mainly by defects in the educational system. He writes: "It can only be concluded that the increased supply of skilled labour in the U.S.A., created by industrial progress and better education, has been more than taken up by the increased demand in certain occupations. It appears that American education is designed more to produce clerical workers than skilled manual workers. Thus, between 1910 and 1947, the demand for clerical workers and salesmen in the U.S.A. rose from 10.2 to 18.2 per cent of the occupied population, yet the supply of this labour was so abundant that its relative remunera-

tion was heavily reduced. During the same period the demand for skilled workers only rose from 11.7 to 13.3 per cent of those occupied, yet apparently the supply in a number of occupations was deficient."*

Examining the changes in the demand for labour of different qualifications Clark draws the conclusion that the demand for skilled labour is comparatively stable, is increasing for semi-skilled labour and is diminishing for unskilled labour. He writes: "It is sometimes claimed that modern mechanisation is destroying the demand for skilled labour, but in fact the proportion of skilled manual workers has increased slightly since 1910. There has been a much greater increase in the number of semi-skilled, but this is more than offset by the decrease in the number of completely unskilled. It is this latter class who are put out of work to the greatest extent by mechanical advance, not the skilled men."**

However, by using too inclusive a term—"modern mechanisation"—Clark has painted a clearly one-sided picture. The thing is that Clark's concept of "modern mechanisation" includes the replacement of manual labour by machine labour, the introduction of the conveyor and automation of production. These processes operate together and interact, but each of them affects different groups of workers. Mechanisation of labour-consuming processes reduced the demand for unskilled workers, conveyor production—for skilled workers, and, lastly, automation drives out all categories of workers, but above

* Colin Clark, *The Conditions of Economic Progress*, p. 542.

** Ibid., p. 508.

all the semi-skilled workers, i.e., the bulk of machine operators.

One of the factors of the relative reduction in the wages of skilled workers is that under modern capitalism chronic unemployment has increased among all sections of the working people. Clark states that "... margins for skill in the United States have been extraordinarily reduced during the last decade. They may indeed be expected to go on narrowing further".*

This is attested by the figures in Table 2.

Table 2

*Relative Wages of Workers in the U.S.A.***
(Unskilled Urban Labour=1)

Date	Agricultural Labour	Skilled Men		
		Engineering	Building	Truck Driving
1900	0.52	1.61	2.48	...
1913	0.63	1.66	2.73	...
1926	0.49	1.82	3.04	...
1938	0.38	2.12	3.36	1.92
1953	0.44	1.30	1.98	1.38

Clark interprets this tendency quite one-sidedly, associating it mainly with the rise in the level of the country's industrial development. He asserts that, according to Professor Fisher, "the margins between skilled and unskilled wages might be expected to be relatively wide in primitive countries or in countries at an early stage of industrial development, and relatively narrow in countries with long industrial experience,

* Ibid., p. 525.
** Ibid., p. 530.

where the acquisition of the required skills and education was easier."*

Of course, a high level of industrial development creates favourable conditions for extensive training of skilled personnel, but simultaneously the demand for them also increases. The diminution in the wage-level differences between skilled and unskilled workers is in large measure achieved as a result of an intense struggle of the latter for raising the wage minimum.

The serious gap in the wages between skilled and unskilled workers in the developing countries of the capitalist world requires a deeper explanation than the one offered in Clark's book. If it were all a matter of greater demand for skilled workers than its supply and the difficulties of learning the requisite skills in the developing countries, this could be overcome in the course of a few years. But this gap in wages was maintained in the less developed countries for many decades, and in this we cannot but see a calculated policy of the imperialist powers and foreign monopolies which spared no efforts in resisting the training of national specialists in the colonial and dependent countries and preferred to bring "their own" skilled workers from overseas. Both in the economically developed and underdeveloped countries of the capitalist world a section of skilled workers is bribed by the monopolies in order that it may form the social support of the monopolies in the working-class movement.

The purport of Clark's conception manifests itself particularly clearly in his examination of the causes of unemployment. Clark sees the main cause of unemployment in insufficient "social

* Ibid, p. 525.

mobility" and deep "social stratification" of capitalist society, in other words, in that the structure of supply of labour power adjusts itself too slowly to the changes in the structure of demand for it. Moreover, he sees the "root of all evil" in the "inertness" of the people, in their tendency to follow the example of their fathers and grandfathers, and in the defects of the edu- cational system. "Why are a certain number of men, now, offering themselves for employment as unskilled labour, or in any other field? In spite of all the supposed 'mobility' of modern society, one of the most important reasons, sta- tistically, why men are offering themselves for a particular kind of job, is simply that their fathers also were engaged in similar employment."*

It is precisely for this reason, Clark assures us, that "American society is in danger of form- ing highly stratified classes. . . . Children of busi- nessmen and farmers constituted three-quarters of its numbers."**

Clark thus imparts to the concept of "social stratification" not a class, but a psychological content. He explains it by the inertness of human nature, domination of habit, etc. To put every- thing back on its feet, it is necessary to say some- thing opposite to what is asserted in Clark's book, namely, that the profound property in- equality of the social groups and classes inevitab- ly engenders certain traditions. The "inertness" turns out to be conditioned not by psychological, but by social and economic factors. The difficulty of receiving an education and acquiring skills, the burden of expenses associated with the

---

* Colin Clark, *The Conditions of Economic Progress*, p. 545.

** Ibid., p. 548.

change in domicile, etc., make it extraordinarily difficult for a plain working man of a capitalist country to change from one branch of the economy to another. The way to the upper strata of bourgeois society is generally closed to people without capital, influential friends, long and costly special training.

To support his thesis that unemployment is engendered by "inertness", "lack of mobility", Clark cites the following figures about the level of unemployment among the different occupational groups.

Table 3

*Relative Rates of Unemployment Among Males in Different Occupation Groups**

	England and Wales 1931	Great Britain 1951	U.S.A. 1940	U.S.A. 1949	Austria 1933	Canada 1931
General rate of unemployment (per cent) . . .	12.7	2.1	13.8	5.5	18.9	19.6
Ratios to general rate:						
Unskilled manual	2.40	2.42	2.41	2.28	2.45	1.88
Agricultural wage workers	0.60	0.76	0.90	0.71	0.70	0.99
Personal service workers	0.78	1.85	0.89	1.11	1.09	0.61
Salesmen and shop assistants** . .	0.62	1.05	0.64	0.63	0.97	0.53
Clerks	0.43	0.57	0.67	0.69	0.70	0.41

* Colin Clark, The Conditions of Economic Progress, p. 545.
** Male and female (U.S.A. 1949)

As the table shows, unemployment among unskilled workers is nearly always about 2-2.5 times as high as the average level. This is a very interesting fact. It attests not at all the "inertness" of the workers, but the accelerated displacement of unskilled labour by machines and the fact that under conditions of chronic unemployment the ranks of unemployed unskilled workers are joined by many workers from other groups, who have long since lost their jobs and their skills, as well as by a part of the ruined small producers, war veterans and immigrants.

The structural disproportions in the demand for and supply of labour power are undoubtedly one of the sources of unemployment, but these disproportions are engendered by the anarchy and exploitation typical of capitalism. It is precisely the capitalist system that is responsible for the fact that the transfer of labour power from some branches to others and, in the first place, from agriculture to industry or the services sphere is accompanied by ruination of the masses of peasants and an increase in unemployment in towns.

Clark's conception of economic development is supposed to explain two basic series of phenomena: a) the rates of increase in average labour productivity in different countries at different periods of history, and b) the dynamics of distribution of incomes among the different classes of bourgeois society.

The resultant data received by Clark concerning the average annual increase in production of the "real product" per man-hour in a number of countries look as follows:*

* In his last book *British Trade in the Common Market* (pp. 21-27), Clark cites the following figures:

		per cent
U.S.A.	1890-1952	2.3
France	1870-1951	2.3
Japan	1914-1929	3.2
	1929-1940	1.4
	1940-1952	2.4
Italy	1901-1925	3.5
	1925-1938	0.7
	1939-1953	3.8
Germany	1860-1891	2.0
	1891-1913	0.6
	1913-1938	1.6

		per cent
Great Britain	1870-1895	1.6
	1895-1913	0.0
	1913-1929	1.6
	1929-1939	0.8
	1939-1953	0.0
F.R.G.	1938-1953	0.0
Spain	1906-1920	1.0
	1920-1951	0.0
Argentina	1916-1951	1.1
Brazil	1929-1949	1.0
Greece	1891-1951	0.0

Whereas Clark's data offer an approximate quantitative evaluation of the development of labour productivity (although distorted as a result of the defects in the methods of calculating the national income, which we have already examined) and show the extreme unevenness of this development, and in a number of countries even stagnation, they say nothing about the sharp fluctuations in the volume of production and employment. The increase in labour productivity in capitalist countries is accompanied by an enormous waste of labour due to cyclic and chronic unemployment and unproductive utilisation of the labour resources.

About the wastefulness of capitalism Karl Marx wrote: "From a social point of view the productiveness increases in the same ratio as the economy of labour, which, in its turn, includes not only economy of the means of production, but

---

average annual rate of increase in gross national product (in U.S. dollars, 1950) was 3.8 per cent in France (1951-60), 3.8 per cent in Italy (1938-60) and 1.6 per cent in Great Britain (1954-60).

also the avoidance of all useless labour. The capitalist mode of production, while on the one hand, enforcing economy in each individual business, on the other hand, begets, by its anarchical system of competition, the most outrageous squandering of labour power and of the social means of production, not to mention the creation of a vast number of employments, at present indispensable, but in themselves superfluous".*

The following entirely incorrect explanation of the rates of economic development in the modern world ensues from Clark's theory:

the underdeveloped countries are developing slowly because they are agrarian;

the imperialist countries are developing much faster, but still more slowly than a few decades ago because they have "gone through" the stage of industrial development and are now speedily expanding the "service sphere";

the socialist countries are developing rapidly for the simple reason that they are in the stage of accelerated industrial development.

Here nearly everything has been put upside down, half-truths are mingled with outright untruths since Clark passes over in silence the main factor which determines the rates of the quantitative and qualitative increase in the productive forces, namely, the system of social relations, and evades an analysis of the concrete historical features of the development of individual countries.

Clark's evaluation of the increase in the national income of the U.S.S.R. is criticised even by bourgeois economists. For example, Studenski, the economist already mentioned above, notes:

---

* Karl Marx, *Capital*, Vol. I. p. 530.

"Clark's re-evaluations of the Soviet national income in British prices were roundabout and somewhat arbitrary and were susceptible of errors."* In practice these "errors" amounted to very greatly underestimating the national income of the U.S.S.R. The errors are repeated also in the latest edition of the book. Here Clark arrives at the following conclusion concerning the U.S.S.R., comforting to himself and other bourgeois economists: "Though accelerating, the rate of growth is still below that of a good many other countries."** According to Clark, this rate (average annual per cent) was 0.7 in 1913-28, 1.6 in 1928-38, and 2.0 in 1938-53.

The following figures offer a correct idea of the real correlation of the rates of increase in labour productivity between the U.S.S.R. and a number of capitalist countries.

Table 4

*Rates of Increase in Workers' Output in the Industries of the U.S.S.R. and the Main Capitalist Countries**

Year	U. S. S. R	U. S. A	Britain	France
1913	100	100	100	100
1928	120	137	94	105
1937	318	147	113	129
1940	422	160	105**	114**
1961	11.9-fold	313	162	267

* *Narodnoye khozaistvo SSSR v 1961 godu (The Economy of the U.S.S.R. in 1961)*, 1962, p. 141.
** 1938.

---

* Paul Studenski, op. cit., p. 371.

** Colin Clark, *The Conditions of Economic Progress*, 1957, p. 250.

To begin with, the table shows an entirely different picture of the growth of labour productivity in the U.S.S.R. Under socialism it is increasing at rates never achieved by capitalism at any period of its history. The facts convincingly demonstrate that the rates of long-term increase in labour productivity in the national economy are in the final analysis determined not by the structure of employment, but by the system of social relations. This also applies to the rates of growth of gross output. The average annual rates of increase in industrial production in the U.S.S.R. and the U.S.A. were respectively 10.1 and 3.3 per cent in 1918-60 and 11.1 and 2.5 per cent in 1954-60.* The average annual increase in the total agricultural production in 1954-60 were 6.4 and 2.4 per cent in the U.S.S.R. and the U.S.A. respectively.**

Unlike the Keynesians who declared Malthus, the inventor of the "law of diminishing fertility", their spiritual father, Clark chose William Petty, British economist of the 17th century, as the object of his admiration.*** Petty wrote that "there is much more to be gained by *Manufacture* than by *Husbandry*, and by *Merchandise* than by *Manufacture*", and that "a Seaman is

---

* See *Narodnoye khozaistvo SSSR v 1960 godu (The Economy of the U.S.S.R. in 1960)*, Gosstatizdat, 1961, p. 175.

** Ibid., p. 191.

*** An appeal to the erroneous or superficial propositions of economists of the distant past has become a sort of fashion with modern bourgeois economists. It is no mere accident that L. H. Hany, noted bourgeois historian of economic theories, advanced the thesis on cyclic movement of economic thought in capitalist countries. (L. H. Hany, *History of Economic Thought*, New York, 1949, p. 941.)

in effect three Husbandmen". In these statements Clark sees the historical and theoretical foundations for his division of production in three spheres and draws the conclusion about the predominant growth of the services sphere, while in Petty's discourses on economy conditioned by a very dense population he discerns the basis of the "law of increasing returns". Clark writes: "After a century and a half of Malthusian propaganda we come to regard dense populations, including our own, with some suspicion; and have lost sight of the obvious fact that, until a certain degree of population density has been attained, no civilisation at all is possible; and that many of the refinements and economies of civilisation only become possible under conditions of much higher population density."*

Thus to the erroneous assertion of the Malthusians that the increase in population density is the cause of diminished labour productivity Clark opposes the mistaken proposition that an increase in population density of itself leads to a rise in labour productivity.** Actually it is not

---

* Colin Clark, *The Conditions of Economic Progress*, p. 493.

** From these two opposite conceptions of Malthus and Young-Clark the noted bourgeois theoretician Paul A. Samuelson constructed his conception of "optimum population density". According to this conception, with an increase in any country's population density at the given level of science and technology the productivity of national labour increases by virtue of the increased possibilities of intra-national division of labour. But this increase is not unlimited. At a certain stage of development the population turns out to be too numerous for the available natural resources and the negative effect of Malthus' law of diminishing productivity begins to negate the advantages engendered by the increase in population density.

the population density, but the system of social relations, the concrete historical conditions of accumulation and many other factors that determine the differences in the rates of increase in labour productivity.

On the whole, according to Clark's conception, the economic development of society is based on an increase in the volume of production. It is on this and on the structure of employment that the rise in labour productivity and, consequently, also the change in the structure of demand and distribution of income very largely depend.

It is quite natural for a conception, which asserts that the labour productivity depends on the volume of production, to have made its appearance in the epoch of the general crisis of capitalism when the enormous underloading of the production capacities and chronic unemployment lead to innumerable losses and lower the social productivity of labour.

But what does the increase in the volume of production depend upon? To this decisive question Clark's theory gives practically no answer, for his reference to Young's assertion that the increase in production is determined by an increase in population cannot be taken seriously. Only under the socialist mode of production does

---

As a result, no country must overstep a certain optimum threshold of population density.

The historical experience of Japan, Holland, Indonesia and other densely populated countries disproves the foregoing formal-logical conception. The population density of an individual country is of no independent economic significance and its effect on productivity is connected with the level and rates of technical progress, the country's place in the international division of labour and, in the final analysis, with the system of social and economic relations in the given country.

the increase in population, in addition to accumulation and scientific and technical progress, become a direct factor of increase in production. Under present-day conditions the limits imposed by capitalism on the increase in production are too narrow compared with the potentialities of the modern productive forces, science and technology. The available productive forces make possible a more rapid increase in production than is taking place in capitalist countries today.

This is attested, for example, by the extreme unevenness of increase in production in different countries at different times.

The Keynesians consider an excess of savings over investments the main impediment to this increase, whereas their opponents—the neoliberals—on the contrary, believe insufficient savings to be the main danger. According to Clark, the demand and supply of capital in the long run balance each other. Clark sees the danger in the restrictive practices of the monopolies (restriction of production and export of goods). While taking into account individual aspects and contradictions of modern capitalism (surplus of capital, anarchy of production, oppression by the monopolies), all schools of bourgeois political economy evade the main and fundamental issue engendered by the character of capitalist reproduction, namely, the problem of realisation which has become aggravated under the conditions of modern monopoly and state-monopoly capitalism. Realisation being limited by the insufficient purchasing power of the masses, the volume of production in the capitalist world grows much more slowly than it could with the extant labour productivity and the available labour power.

* * *

Thus, the prospect that Clark sees for the developed capitalist countries is a certain slowing down of the rates of growth of the per capita national income. But this does not worry him at all since, as we saw it, with his statistics he has already "sated" the acutest requirements of the people of these countries. According to Clark, the problem of increase in wealth is a problem of past centuries. The acutest problem of today is that of distribution of incomes (not the wealth, but precisely the incomes). In the sphere of distribution he finds that capitalism has the "finest" prospects. To the countries with private enterprise he promises an equalisation of the incomes with a slowing of the rates of growth of the per capita income.

Examining the problem of distribution Clark proceeds from the following propositions: "(1) The distribution of the net agricultural product and the net non-agricultural product should be regarded as two entirely separate problems, to be analysed separately. (2)... it is not practical, at any rate at present, to make distinction between wages and salaries. (3)... in the case of all working proprietors ... it is reasonable to impute that their income contains an element representing the remuneration of labour equal to the average per head earnings of the whole body of wage and salary earners. (4)... it is also not practical, at present, to separate the remuneration of capital as such from the remunerations of effort and risk."*

Clark writes: "... Countries where labour

* Colin Clark, *The Conditions of Economic Progress*, p. 616.

receives the highest share of the product are France and the U.S., where it is now over 80 per cent, but ... there are a number of other countries in which the figure is in the neighbourhood of 75 per cent. The lowest ratios are found in Mexico and Chile and it is probable that labour receives throughout Latin America a low share of the product. . . .In Latin America, not only is labour's share of the product low, but its trend still seems to be downwards. . . . In most other countries the trend is upwards, though there are some interesting exceptions.

". . .It will be appreciated that the remainder of the net national product, ranging from 45 per cent in some Latin American countries down to 20 per cent or less in some others, must represent the combined net remuneration of capital, enterprise and risk-taking. The downward tendency of this proportion in most countries is clear. But it is equally clear that it is unlikely to disappear altogether. One might even ask, *a priori*, if it is conceivable that this figure should fall much below 20 per cent."*

These data on distribution of the national income are incorrect. They are based on the wrong main conception, according to which all incomes of the persons who serve the various needs of the bourgeoisie and other groups that live by redistribution of the surplus value are regarded as "labour incomes". As the non-productive sphere expands and the number of persons catering to the bourgeois groups of the population increases, an illusion of an "increase of the share of labour" in the national income

---

* Colin Clark, *The Conditions of Economic Progress*, pp. 617, 620-21.

is created. Actually, however, the share of the working people, producing the national income, in the consumption of this income is diminishing if only as a result of the increase in the share of those who are occupied in the non-productive sphere. Trying theoretically to substantiate a contrary assertion Clark employs the thesis of the predominant increase in the services sphere, but it is precisely this thesis that disproves the initial proposition.

Clark further turns to the conception elaborated by the followers of Tugan-Baranovsky; according to this conception, the distribution of the national income is determined by the "correlation of forces". With the development of capitalism the share of the working class in the national income presumably increases, while the share of the capitalists decreases. Clark announces that it is necessary to supplement this "non-economic" interpretation by "purely economic" argumentation. He proceeds from the fact that in the services sphere there is several times less capital per one employed than in industry, for which reason it takes much less capital to set up an enterprise in this sphere than it does in industry. So, Clark concludes, by saving money any worker can become an entrepreneur. But, if the number of entrepreneurs proves too large, some of them will become workers. This transfer, according to Clark, equalises the remuneration of the "labour factor" and the "enterprise factor", i.e., the incomes of entrepreneurs and workers. The accelerated increase in the services sphere is thus the motive force in eliminating the gulf between labour and capital, and in creating the "welfare" society.

Clark writes: "The distribution of the product of industry between labour and capital used to be envisaged by many economists, with their attention concentrated upon the capital resources of large-scale industry on the one hand and an impoverished proletariat on the other, as a struggle between non-competing groups. . . . The worker could not become a capitalist nor the capitalist a worker; the distribution of the product between them was held by many to be indetermined, or settled only by relative bargaining powers.

"Now that we envisage a large and increasing proportion of the national product representing the output of service industries and of small-scale manufacture, different considerations arise. The wage-earner, under certain circumstances at any rate, has an opportunity of engaging in enterprise of his own. Alternatively, if wages appear high relative to the earnings of enterprise, the small entrepreneur will cheerfully abandon his business and undertake wage work. Under these circumstances the distribution of the product will in the long run be determined by the extent of these movements into and out of the field of enterprise.

"Thus, with time, and as the wage-earner's opportunities of obtaining capital, education and experience increase, he will compete more formidably with existing enterprises. The relative remuneration of enterprise and capital may be further reduced and labour may obtain more than 80 per cent of the product. On the other hand, it is clear that the process cannot go very much further. One might say, in general terms, that at least 10 per cent of the product must be reserved for the remuneration of other factors

of production, if the necessary element of enterprise is to be maintained".*

The absurdity of this conception of "entrepreneur" becomes apparent upon closer examination of what it includes. Clark, it turns out, regards as "entrepreneurs" the monopolist and the small merchant (even the peddler) and the farmer. This generally untenable classification of qualitatively different social groups is particularly absurd for the epoch of imperialism. Even the data cited in Clark's book in some other connection show clearly enough that there is nothing in common between the positions of the large monopoly entrepreneurs and the small businessmen. For example, Clark quotes the bourgeois economists Weintraub and Magdoff on "entrepreneurs" in retail trade: "Some of the persons absorbed must be regarded as having assumed a status of disguised unemployment, judging from the higher rates of mortality of establishments engaged in retail trade and the incomes of large sections of the small businessmen."**

The data cited by Clark to prove what an easy access new entrepreneurs have to the services sphere actually prove the contrary, i.e., how easily small businessmen are ruined. According to a random investigation, the average term of enterprises in small English towns in the last 100 years has been 3-5 years. This shows that small enterprises absolutely predominating numerically rapidly go bankrupt.

* Colin Clark, *The Conditions of Economic Progress*, pp. 621-22.

** Ibid., p. 401.

From the materials of the American Senate cited by Clark it follows that "business deaths have varied from 250,000 to 450,000 establishments annually since 1900, while from 300,000 to 500.000 new business enterprises have been launched each year in the U.S. during the same period. . . . New businesses . . . start in a ratio of about 1:5 of concerns in existence"*

Small businessmen compete with each other and perish by the hundreds of thousands. This benefits large monopolies, but does not affect the distribution of the national income between the working class and the class of capitalists.

Clark sets forth his main idea at the end of his book. This idea is as old as bourgeois society itself, i.e., capitalist property and incomes must not be expropriated because the workers themselves have nothing to gain by it. He writes: "In a country where labour already obtains 80 per cent of the net national product, even if no further rise in this ratio takes place, assuming that real product per man-hour is rising at the rate of 2 per cent per annum, we reach the interesting conclusion that labour has as much to gain, in the way of real income, from ten years' normal development as it could obtain by complete expropriation of all the income of capital and enterprise now. . . ."**

At this point we might conclude the examination of Clark's conception. It turns out, however, that the "law of increasing returns" "discovered" by him not only promises welfare, but also conceals an enormous danger. This danger lies in the growth of monopolies and sharp intensifica-

---

* Colin Clark, *The Conditions of Economic Progress*, p. 401.

** Ibid., p. 621.

tion of the competitive struggle in world markets and the ensuing threat of "extreme nationalism", for which reason Clark resolutely opposes the free play of the economic forces of capitalism (the *laissez-faire* principle). According to Clark, the economic mechanism with the free play of economic forces functions more or less satisfactorily only under conditions of "diminishing returns", i.e., when upon attaining the optimum size enterprises have no more stimuli to further expansion of production; this restriction ensures maintenance of the conditions of free competition. But in cases of "diminishing returns" in branches producing non-transportable products (for example in public utilities) free competition is replaced by monopoly. Moreover, even when assuming that production is governed by the "law of diminishing returns", the free play of economic forces does not ensure full employment of the resources. "Further, it is now admitted by all economists that a *laissez-faire* system is not self-regulating in the matter of ensuring full employment of resources as a whole, and that a governmentally regulated monetary policy is necessary to this end."*

Clark thus subscribes to the Keynesian argumentation in favour of "regulated capitalism".

But Clark is convinced that the decisive blow at the argumentation of the advocates of the *laissez-faire* principle is delivered not by Keynesianism, but by his own "law of increasing returns". The *laissez-faire* principle cannot operate under conditions of "increasing returns", and since the returns, in his opinion, increase

* Colin Clark, *The Conditions of Economic Progress*, p. X.

in the overwhelming majority of branches, the law cannot operate at all, but must be replaced by the principle of state regulation.

Why then is the freedom of enterprise incompatible with the "law of increasing returns"?

Answering this question Clark essentially creates a new variant of the theory of monopolies, the theory of imperialism.

Clark's theory of monopolies differs from a number of other modern bourgeois conceptions and from E. Chamberlin's conception of "monopolistic competition" in particular. This theory might be called a "theory of surplus production" since it proceeds from the idea that in most branches there is a tendency towards chronic overproduction. Unlike Chamberlin's theory which justifies and even lauds monopolies, Clark's conclusions gravitate towards reformist criticism of the monopolies and in this respect approach Robinson's conclusions.

According to Clark's theory, in the case of "increasing returns" the marginal costs are below the average and this drives the enterprises to expansion of the volume of production and to great intensification of competition. "The result," writes Clark, "must be one of three things:

"(I) Competition may continue till there only remain a few businesses who finally reach agreement, or possibly only one business, and probably not the most efficient, for success in such competition depends on abundance of financial resources rather than upon true efficiency.

"(II) Alternatively, agreement between the competitors, express or tacit, upon maintenance of prices and restriction of output, may be obtained before this stage is reached.

"(III) Alternatively, competition may take the form of hypertrophied selling effort, advertising, offering the consumer auxiliary goods and services which he does not really want, and in other ways artificially raising marginal costs (or lowering marginal revenue) until equilibrium can be attained."*

In all three cases the consumer will get less goods and will have to bear greater expenses; moreover, the inequality in the distribution of the income will increase. In these cases, Clark notes, state control of production and prices or state ownership is advisable. State control or state ownership may also be needed in the branches where private enterprises are unable to carry on production on a large enough scale to ensure "increasing returns".

Clark thus uses the method which prevails among modern bourgeois economists: he opposes the "regulatory" activity of the state to the growth of monopolies, misrepresenting the true nature of intervention of the bourgeois state in the economy.

Clark does not study the role of the bourgeois state in economic development. But the state is invisibly present everywhere as some "higher power" capable of determining the direction of economic development. Such views of Clark are not accidental; they are connected with the subjective idealist conception of social development prevalent among modern bourgeois economists. According to this conception, a political system is a reflection of some abstract "human nature" and economy is but a certain method of

---

* Colin Clark, *The Conditions of Economic Progress*, p. XII.

using the productive forces within the framework of the given political system. In accordance with this view, Clark (invoking the help of even Thomas Aquinas) establishes a "hierarchy of sciences": the technical sciences must be subordinated to political economy and the latter to history, political history in the first place. But the highest criteria of acceptability or inacceptability of any conclusion of economic theory and even policy are the conclusions of ethics, the philosophy of morals which studies "human nature".

Clark completely subscribes to the following assertion of G. R. G. Mure, a bourgeois ideologist: "A political theory (describes) the kind of human community its advocate thinks desirable and also possible, having regard to human nature. An economic theory, on the other hand, is what somebody supposes to be the best way in which a community can get and use the material means to living the kind of life which it thinks possible and desirable."*

Such a "philosophy" has a double meaning. If democracy corresponds to "human nature", then the most "economic" mode of production is capitalism. Within these limits Clark is a "determinist". But, if the economy of capitalism does not in some way correspond to the interests of the given political system and "human nature", it may be "corrected" by methods of state intervention. Here Clark is a voluntarist and without any quotation marks either.

At the same time such a definition of the subject matter and tasks of political economy

---

* Colin Clark, *The Conditions of Economic Progress*, p. 2.

attests to a retreat of a number of noted bourgeois economists from the former "classic" definition that their "science" studies the *best* mode of production and distribution of material wealth. Now these economists claim merely to be studying the best mode of production within the framework of the given political system, shifting the burden of proving what political system is the "best" to sociologists and philosophers.

It is known that society produces material wealth not on a voluntarily chosen basis, but on the basis of the productive forces created by the labour of many generations. Each historical stage of development of the productive forces calls to life a certain social structure and requires a certain social organisation of production. Hence the domination of a corresponding political system and the spread of specific ideological conceptions. "Human nature" and the type of political organisation of society thus turn out to be not the basic factors with respect to production, the economy, but, on the contrary, derivative phenomena in the historical process. According to Vladimir Lenin's classical definition, politics are a concentrated expression of the economy, its generalisation and consummation.* This definition emphasises that the economy forms the deepest content of politics and that politics in its turn actively affect the economy.

For the most complex natural and historical process of development of the productive forces, for the law-governed succession of economic formations and political systems Clark tries to substitute a primitive idealist scheme of choice:

* Lenin, *Collected Works*, Vol. 32, p. 83.

there is an eternal human nature, philosophers and sociologists choose for it, like fashionable tailors, a fitting political dress, and the economists, proceeding from the chosen political system, find the "best" scheme for economic organisation. If everything were so simple, the entire preceding history of man would not have been a history of revolutionary struggle and succession of various social and economic formations occurring on the general basis of revolutions, now slow and now rapid, in the productive forces of society.

In formulating his views of the determining role of ethics and politics with regard to economics Clark was unable to adduce any convincing arguments to support them. His only argument is that "without a political order men cannot live together in communities at all".* This is an entirely empty and abstract argument since politics are primarily a category which expresses the relations of certain classes, while the class structure of society is determined in the first place by the economic conditions of production. The idealist interpretation of the role played by the bourgeois state leads Clark to overestimating the state policy in the economy in general and in the development of monopolies in particular.

Clark is trying to explain the origin of monopolies not so much by the laws of capitalist production as by the policy of protectionism pursued by the state. He writes: "If international commerce is entirely free, monopolies are unlikely to grow up, except in the production of

---

* Colin Clark, *The Economic Conditions of Progress*, p. 2.

goods and services which require large and indivisible units of production, and cannot be transported for any distance. . . ."*

While noting the close connection between monopolies and protectionism, Clark ignores the decisive aspect of this connection, namely, the independent and determining role of the monopolies. As the experience of the Common Market has shown, under certain conditions protectionism within a separate group of countries may be lessened, but this not only fails to liquidate the monopolies, but furnishes an additional impetus to the growth of international cartels. The easing of the protectionism effected in the Common Market countries under the false slogan of "free trade" actually served the purpose of facilitating and accelerating the specialisation of production and the consolidation of the positions of big capital within the framework of international monopolies precisely at the expense of the small and middle enterprises. It is noteworthy that in his last book Clark admits, despite his own theory, that "the formation of the European Economic Community will provide a happy hunting ground for the organisers of cartels". As for the anti-cartel laws in the Common Market countries, Clark has himself discovered here "a most dangerous tendency to substitue words for deeds".**

Depending on the concrete conditions the monopolies use the slogan of protectionism, as well as the slogan of "free trade", for the very same purpose of stifling the last remnants of free competition and free trade.

* Ibid., p. IX.

** Colin Clark, *British Trade in the Common Market*, London, 1962, pp. 100, 105.

Clark acknowledges that under modern conditions free trade is impossible, but by turning the real relations upside down he explains this not by the domination of monopolies, but by "national interests" and non-historical "law of increasing returns".

Clark regards the fact that freedom of trade under conditions of "increasing returns" cannot ensure the most productive utilisation of the resources of each individual country as an important argument in favour of state regulation. He observes that, if the "law of diminishing returns" were operating, each country would receive under the conditions of free trade a place in the international division of labour that would correspond to its specific potentialities to the greatest degree possible. Under such conditions any artificial regulation would only result in losses. But, as Clark asserts, since the international economic relations are also governed by the "law of increasing returns", the picture sharply changes. Under these conditions free trade hinders the movement of labour resources and capital from the branches governed by the "law of diminishing returns" (agriculture) to those governed by the "law of increasing returns" (industry). It also hampers the increase in the scale of industrial production and thereby the increase in its returns. That is why, Clark declares, he considers protectionism or, according to his terminology, "nationalism" economically justified, especially in underdeveloped countries. According to Clark, state regulation of foreign trade would alter the structure of production in favour of industry at the expense of agriculture and would increase the returns of

the national industry by increasing the scale of production.

But "nationalism" limits the market, which inevitably accelerates the growth of monopolies within the country; this growth in turn increases the necessity for introducing "socialism" (by "socialism" Clark implies intervention of the bourgeois state in the economic life of society). Thus "nationalism" in foreign and "socialism" in internal economic policy stimulate and strengthen each other and under conditions governed by the "law of increasing returns" are both natural. Hence, according to Clark, the "natural" economic laws, if society observes only them, lead to coalescence of "nationalism" and "socialism". Clark writes that "the alliance of Nationalism and Socialism produce a monster which threatens to devour the world. . . ." *

Clark thus notes the definite processes in the economy and politics of modern capitalism which were long ago much more fully revealed and analysed in Marxist economic literature, namely, that technical progress and the advantages of large-scale production are conducive to concentration which, in turn, under the conditions of capitalism leads to the growth of monopolies, to development of finance capital and a finance oligarchy. This process forms one of the foundations for the growth of state-monopoly capitalism, the aggravated struggle of imperialist states for foreign markets, protectionism and other forms of "economic nationalism". At the same time Clark oversimplifies the connections between phenomena, omits the necessary links in them and confuses different concepts.

* Colin Clark, *The Conditions of Economic Progress*, p. XIV.

It was already stated above that Clark passes for socialism what is in no way socialism, but is one of the forms of state-monopoly capitalism. The direct connection made by Clark between the tendency towards raising the marginal productivity and the threat of "national-socialism", i.e., fascism, is a clear simplification and a strained interpretation. Fascism as the most reactionary and bloody form of dictatorship of finance capital appears on the basis of development of state-monopoly capitalism under definite historical conditions, when the class struggle within the country and on the international arena has reached a certain point, and to deduce it directly from the mechanism of development of the productive forces is clearly to distort historical truth. At the same time it is not uninteresting to note that this prominent and comparatively liberally-minded bourgeois economist is trying in his own ways to discover the law-governed connections between the economic processes operating in the womb of modern capitalism and the tendency to fascisation of the political life observed in a number of imperialist powers. Here Clark enters into a contradiction with his own idealist views concerning the correlation between economy and politics, as well as with the superficial conceptions of many bourgeois economists who ignore the connections between economic processes and events of political life.

Here we come to the essential difference between post-war Keynesianism and Colin Clark in their evaluation of the main trend, the main form of state-monopoly intervention in the economy.

While the Keynesians demand such measures

as credit and money regulation, increase in the budget, stimulation of export and limitation of import, etc., Clark deems it necessary to shift the centre of gravity to curbing the activities of the monopolies and nationalising certain branches of the economy where monopolisation has gone too far. The main danger of Keynesian regulation is, according to Clark, that it leads to shutting the national economy off from the world economy, to "nationalism". Clark clearly alludes that the Keynesian recipes drive towards totalitarianism, i.e., to fascism.

Society, as Clark believes, has two ways of avoiding the catastrophe—either free trade within the country combined with foreign economic "nationalism" (i.e., protectionism) or "socialism" (i.e., state intervention in the economy) in internal and "internationalism" in foreign economic policy. Clark declares only the latter way to be practically possible. Considering the meaning Clark attaches to these terms, he advocates a combination of state-monopoly capitalism internally with a system of state-monopoly agreements in world markets.

Thus the main conclusion of Colin Clark's book *The Conditions of Economic Progress* is that the free play of the economic forces of capitalism "produces a monster which threatens to devour the world". But in vain does Clark believe in the life-saving role of state regulation; the bourgeois state does not oppose the monopolies. State-monopoly capitalism means a combination of the forces of the monopolies with the power of the state for the purpose of intensifying the exploitation of the working people and of enriching the monopolies. The only way which ensures peace, freedom, equality and conditions

for rapid economic progress to mankind is the way of scientific socialism. Life has fully confirmed Marx's historical words: "When a great social revolution shall have mastered the results of the bourgeois epoch, the market of the world and the modern powers of production, and subjected them to the common control of the most advanced peoples, then only will human progress cease to resemble that hideous pagan idol who would not drink the nectar but from the skulls of the slain."*

* Karl Marx, "The Future Results of the British Rule in India", K. Marx and F. Engels, *The First Indian War of Independence 1857-1859*, Moscow, p. 38.